BDC

BDC: Banking on Canadian Entrepreneurs

2004 ANNUAL REPORT

Canada

Our Mission

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Our Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Our Key Services

Financial services (term financing); subordinate financing; venture capital; consulting services and BDC Connex® (financial products online).

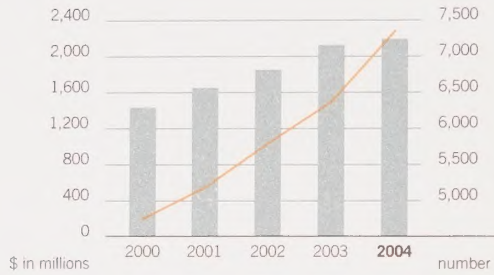
BDC: Banking on Canadian Entrepreneurs

A solemn commitment that spans 60 years. Over time, BDC has gone the extra mile to fulfill its mission of supporting entrepreneurship in Canada. We designed customized financing solutions to meet our clients' needs. We took more risks. We became more innovative. Why? Because we have faith in entrepreneurs. They are truly making a difference in the Canadian economy. And we know that by banking on their ideas, on their projects and on their dreams, we are encouraging their businesses to grow, which is an important way of helping to build Canada's future.

2004

Total Financing Authorized

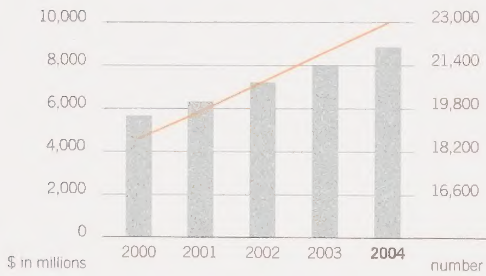
for the years ended March 31



	2000	2001	2002	2003	**2004**
Amount	1,428	1,647	1,845	2,125	**2,192**
Number	4,749	5,173	5,806	6,387	**7,338**

Total Financing Committed

as at March 31



	2000	2001	2002	2003	**2004**
Amount	5,641	6,353	7,201	8,026	**8,845**
Number of clients	18,667	19,664	20,780	21,897	**22,966**

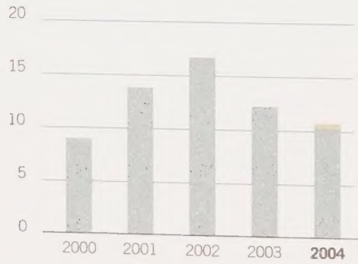
Net Income

for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	**2004**
Loans & Consulting	21.1	32.1	74.7	91.4	**89.4**
Venture Capital	80.0	56.2	(21.0)	(59.5)	**(30.3)**
Total net income	101.1	88.3	53.7	31.9	**59.1**

Dividends

for the years ended March 31 ($ in millions)



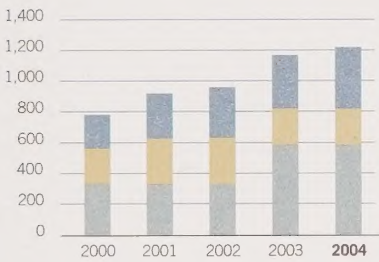
	2000	2001	2002	2003	**2004***
Dividends on preferred shares	8.9	13.8	16.7	12.2	**10.3**
Dividends on common shares	–	–	–	–	**0.4**
Total dividends	8.9	13.8	16.7	12.2	**10.7**

* In addition, based on BDC's fiscal 2004 performance, common dividends of $3.3 million were declared after March 31, 2004 and will be paid and recorded in fiscal 2005.

highlights

Total Shareholder's Equity

as at March 31 ($ in millions)

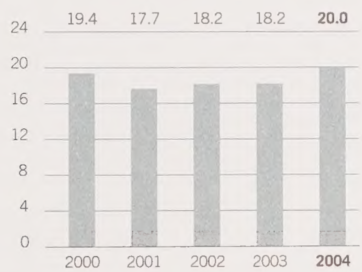


	2000	2001	2002	2003	**2004**
Common shares*	331.2	331.2	331.2	586.2	**586.2**
Preferred shares	230.0	295.0	295.0	230.0	**230.0**
Retained earnings	222.6	297.1	334.1	353.8	**402.3**
Total shareholder's equity	783.8	923.3	960.3	1,170.0	**1,218.5**

* Includes $27.8 million of contributed surplus.

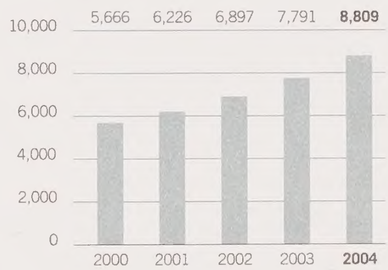
Consulting Revenue

for the years ended March 31 ($ in millions)



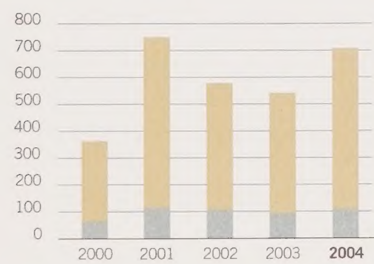
Total Assets

as at March 31 ($ in millions)



Total Value of Venture Capital Projects Financed

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	**2004**
BDC Venture Capital authorized	63	114	106	93	**109**
Other sources of investment (estimated)	301	636	472	446	**598**
Total	364	750	578	539	**707**

Chairman's Message

The Business Development Bank of Canada is 60 years old. Proclaimed by an Act of Parliament in 1944, the institution evolved to establish itself as the undisputed leader in one area: serving the needs of Canada's small and medium-sized businesses by acting as a complementary lender in the financial services market. Throughout the Bank's history, BDC employees have invested their time and effort to constantly put the interests of entrepreneurs at the top of their agenda. Their unparalleled work ethic has contributed to making BDC an innovative and very successful organization.

In 2004, as a result of the departure of the former head of BDC, the Board authorized the appointment of an acting president and CEO, a decision that ensured continuity of leadership for BDC. Although these were trying times for BDC, our employees worked together as a team to help BDC record another year of good financial performance.

The Bank's results for the last fiscal year are indeed satisfactory. BDC repeated its fiscal 2003 feat by achieving more than $2 billion in authorizations. BDC also recorded a profit of $59 million and declared dividends of $10.7 million to the Government of Canada. BDC continued to fulfill its mission of filling gaps in the market.

A few examples are worth mentioning. BDC's new financing solutions successfully met the requirements of small and medium-sized businesses, and these solutions have shown a remarkable growth in numbers and in dollars in fiscal 2004. BDC also reinforced its position in the Canadian quasi-equity market by reasserting its role in subordinate financing transactions of $5,000,000 or less. In addition, BDC significantly increased its share of the Canadian venture capital market in fiscal 2004. Ever since the creation of BDC Venture Capital in 1983, BDC has increasingly played a major role in this industry. Focused on supporting carefully selected venture capital clients in the early stages of their business, BDC invests its resources in promising industry sectors, including information technology, telecommunications and biotechnology.

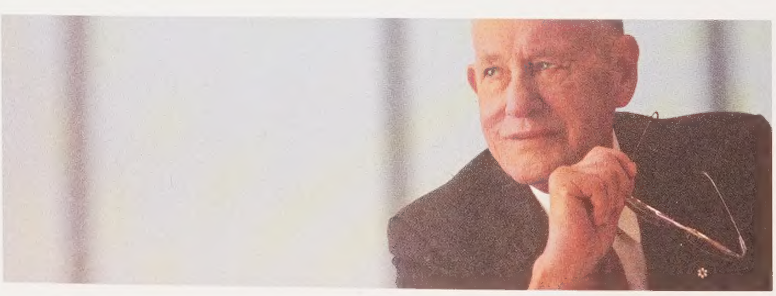
BDC's continued success may be explained by the fact that it is fulfilling its public policy mandate very well. Determined to encourage the creation and development of small and medium-sized businesses, BDC acts in accordance with its mandate by taking more risk and by offering innovative and customized business solutions. Above all, the client stands at the centre of BDC's initiatives.

In addition, the Bank's decentralized decision-making process is clearly paying off. Employees conduct transactions at the regional level, closer to the clients. In its decision making, as well as in its business solutions, BDC demonstrates its client-driven approach.

In today's business world, the issue of corporate governance has taken on renewed meaning. It has become vitally important to Canadian Crown corporations, which all have boards as part of their operating structure. A well-run board with highly skilled members can even be a formidable strategic asset for an organization. BDC's Board of Directors actively supports initiatives designed to be implemented within the Bank's management structure of ethical business practices, corporate fairness, transparency and accountability. Most importantly, these sound corporate governance principles or standards are shared at all levels of BDC.

I wish to take this opportunity to thank Board members, past and present, for their contribution.

As Chairman of the Board, I'm proud to belong to such an organization. The Board, the Senior Management Team and all our employees have the interests of BDC at heart, an indisputable fact that has resulted in another successful year. I'm particularly pleased with our employees, whose professionalism and dedication are just two of the qualities that make our institution what it is and what it shall remain.



Cedric E. Ritchie
Chairman of the Board

President's Message

In 2004, BDC celebrates its 60th anniversary. Since its inception in 1944, BDC has had one sole objective: to help create and develop Canada's small and medium-sized businesses. Over the last six decades, generations of employees have devoted their time and effort to fulfilling BDC's mandate. All employees respect and abide by BDC's principal core values which are crucial to our institution: ethics, client focus and teamwork. Our commitment to ourselves and to our clients may be summed up in a few words: true to our values, faithful to our clients.

Jur clients, first and foremost

3y listening closely to our clients and by running surveys and similar initiatives, we have been able, over time, to develop a comprehensive knowledge f their needs. The satisfaction level of BDC clients reached 91 percent in 2004. Over the last couple of years, BDC has decentralized its decision-naking process to be closer to its clients. More than 95 percent of our loans are now authorized at the regional level. More recently, BDC has mphasized the strong interaction between financial services and consulting services.

\s a result of these operational strategies, which have affected our processes and organizational structures, our employees can now spend more ime with clients while offering them the right financial or consulting solutions at the right time. In addition, these operational changes enhanced eamwork and ethics among BDC employees, two of our fundamental core values.

n fiscal 2004, the Canadian economy had to face SARS, Hurricane Juan, mad cow disease and forest fires. We helped our clients cope with the onsequences of these events on their businesses by offering to postpone their capital payments for four months without penalty, and by giving hem the chance to benefit from a working capital loan of up to $50,000. Over 6,000 postponements were granted to some 4,600 customers.

;ommitted to innovation

nnovation has always been part of BDC's mandate. Being a complementary institution, we need to look at market gaps when supporting small nd medium-sized businesses. In fiscal 2004, three of BDC's financial solutions – designed to support start-ups with loans of less than $100,000, o offer working capital loans to stimulate growth and to offer equipment financing for modernization purposes – showed a more than 40-percent ncrease in authorizations from the previous year. BDC created all three of these financial solutions over the last three years.

'artnering with other institutions in the public and private sectors is another way of fulfilling our mission and improving financial and management olutions for Canadian small and medium-sized businesses. Over the years, we have had the opportunity to partner with many institutions and we re thankful for their support.

n fiscal 2004, we concluded a strategic alliance with Caisse de dépôt et placement du Québec. The two partners will invest up to $300 million, vhich BDC will manage, designed to help businesses across the country achieve their growth objectives.

Ve have also intensified our partnership with Community Futures Development Corporations to offer more financial solutions to smaller usinesses, mainly in rural areas.

nitiatives on behalf of women entrepreneurs

leiterating its support for women entrepreneurs in fiscal 2004, BDC created a new $25-million fund to improve access to financing for usinesses owned by women. Acknowledging the fact that Canadian businesses owned by women are growing at twice the national average, DC has significantly increased its lending commitment to women entrepreneurs over the years and supported initiatives such as the Women residents' Organization.

Some good news for venture capital

BDC Venture Capital did better financially in fiscal 2004 and maintained its level of activity in a declining market. Recognizing BDC's role in the Canadian venture capital industry, particularly its support of early-stage knowledge-based businesses, the Minister of Finance announced in his 2004 Budget Speech that the federal government would provide BDC with an additional $250 million to support venture capital activities throughout Canada. BDC will use these funds to make pre-seed and seed capital investments, as well as to continue to create specialized venture capital funds, and to directly support start-up and early-stage businesses in their efforts to commercialize enabling technologies.

An active year for BDC's consulting services

BDC Consulting also had a very good year, achieving revenues of $20 million. Responsive to client needs, BDC Consulting continued to offer services based on quality business practices. The demand for growth solutions – strategic planning, operations management, and sales and marketing strategies – was significant in 2004, showing that operational efficiency is a growing concern for small and medium-sized businesses in a competitive environment.

BDC has implemented a new operational strategy to strengthen the interrelationship of financial services and consulting services, allowing our consulting managers to spend more time with clients. To better meet the needs of smaller businesses for consulting and mentoring services, we introduced the Market Impact Strategy in 10 of our Entrepreneurship Centers across Canada. In addition, BDC introduced two new management support solutions at the end of fiscal 2004: an operational effectiveness diagnostic tool and a human resources management consulting solution.

A few revealing figures for fiscal 2004

For the second consecutive year, BDC exceeded $2 billion in net authorizations. BDC's subordinate financing activities almost doubled compared to the previous year. In fiscal 2004, BDC recorded a total net income of $59 million, which represents a growth of 85 percent compared to last year. We also declared dividends of $10.7 million to our shareholder. BDC's productivity ratio of 49 percent was excellent, notwithstanding an $11 million increase in pension costs for Loans operations.

Because about 60 percent of BDC's portfolio is made up of loans of less than $250,000, and because it has introduced higher-risk financial solutions, BDC must manage credit risk carefully. We also need to provide adequate allowance for credit losses. In fiscal 2004, we increased our allowance to $488 million, representing 6.5 percent of the portfolio.

Dedicated people, satisfied customers

Every year, BDC surveys its employees to ensure that it makes proper adjustments to provide a productive working environment.

Even though the environment for small and medium-sized businesses has changed significantly in the last 60 years, our long-standing commitment to clients has remained unaltered. Throughout the years, we have changed our ways to meet clients' needs. We have listened to our clients. We have evolved with them. Our clients know they can rely on us to offer them the best service.

With the creative contribution, professionalism and unrelenting commitment of all BDC employees to our mission, we will continue to build on a tradition of excellence that already spans six decades.

André Bourdeau
Acting President and Chief Executive Officer and
Executive Vice President, Financial Services and BDC Consulting Group

Corporate Governance

BDC's Board of Directors and its management are committed to maintaining effective governance and strive each year to continuously improve the structure and processes that support corporate governance.

The governance policies are designed to help the Board of Directors supervise Management and approve the direction in which Management proposes to take BDC, while keeping in mind BDC's public policy goals, as well as its culture of sound and ethical business principles.

The Board of Directors derives its strength from the background, diversity, qualities, skills and experience of its members. It is composed of 15 members: the Chairperson, the President and CEO, and 13 other directors.

The Board of Directors has the following responsibilities:

- adopting strategic planning;
- ensuring the integrity of internal controls and management information systems;
- identifying BDC's principal business risks and ensuring the implementation of appropriate systems to manage these risks;
- conducting succession planning;
- monitoring the effectiveness of BDC's corporate governance practices and approving any modification.

he Board of Directors ensures open disclosure of financial information by approving the Annual Report on BDC's operations.

he Board of Directors has timely access to the information it needs to carry out its duties. Directors receive a comprehensive package of nformation before each board and committee meeting and attend an annual strategic planning session. After each committee meeting, the full oard receives a report on the committee's work.

he Board of Directors met 12 times in fiscal 2004. These meetings were held in five different locations across Canada. The Board of Directors lso held its annual strategic planning session to review the Bank's strategic priorities and key factors in its economic environment, and to initiate n open and dynamic discussion with senior management on the projected Corporate Plan.

he Board of Directors continued to promote open communications with Management, enabling senior management to participate in board neetings. The Board also continued to hold in-camera sessions at the conclusion of each meeting, to foster open and frank discussions outside ne presence of Management.

 a move toward better recognizing its real role, the Board of Directors approved the name change of the Executive Committee to the redit/Investment Committee, as its terms of reference were recently modified to approving credits and investments.

nce they are appointed, directors attend an information session and meet all the members of senior management to receive the information bout BDC's operations they need to properly carry out their responsibilities. In addition, directors can contact members of senior management at ny time to obtain the additional information they need to fulfill their mandate. They are invited to participate in activities and professional evelopment workshops on corporate governance or other topics related to their responsibilities.

he Board of Directors delegates part of its work to six committees. The Board ensures that these six committees are composed exclusively of ndependent directors, with the exception of the Credit/Investment Committee (formerly the Executive Committee), which includes the President nd CEO, and the Pension Fund Committee and the Trustees of the Pension Fund, which includes the President and CEO, two BDC officers and ne pensioner. These committees review and supervise various matters that the Board refers to them, and make recommendations they deem ppropriate. All the committees report regularly to the Board of Directors on their activities and submit their recommendations and resolutions to ne Board for approval. A brief description of their main responsibilities and achievements for fiscal 2004 follows.

During fiscal 2004, the Governance Committee met three times. The Governance Committee administers BDC's system of governance. It reviews governance best practices on a continuing basis and recommends appropriate changes to enhance the effectiveness of the governance system. As part of this review, it assesses the methods and processes the Board uses to fulfill its duties, including the following: the communication process shared by the Board and Management, the number and content of meetings, material provided to directors and resources available to directors. The Committee also determines the structure, mandate and membership of the Board's committees. A Policy on Disclosure of Wrongdoing was approved at the May 2004 board meeting.

During fiscal 2004, members had the opportunity to attend seminars on venture capital practices, to get information on such topics as the drivers behind investment decisions and the due diligence process.

Chairperson: Cedric E. Ritchie
Members: Cynthia Desmeules-Bertolin, Léandre Cormier, Jennifer Corson, Louis J. Duhamel, James A. Durrell, Barbara Stymiest, FCA, Jean-Claude Villiard

In fiscal 2004, the Audit Committee met five times. A primary focus was overseeing the special examination that will be completed next fiscal year. Every five years, BDC is subject to a special examination performed by BDC's auditors, as required by the *Financial Administration Act*. The Committee reviewed the examiners' plan and has received periodic status reports. The Committee also oversees financial reporting and internal control systems, and the employee code of conduct. Its members help the Board safeguard BDC's assets and manage its resources. It reviews the quarterly financial results and oversees the external auditors' involvement in the annual financial audit. It also reviews the Financial Statements and Management's Discussion and Analysis (MD&A) in the Annual Report prior to Board approval. The Committee received the annual plan and quarterly reports from the internal audit and inspection team. It continued its practice of meeting the external and internal auditors in private sessions and evaluated the independence of external auditors.

Chairperson: Terry B. Grieve, CA
Members: N. Murray Edwards, Gordon J. Feeney, Roslyn Kunin, Oryssia Lennie, Barbara Stymiest, FCA

The responsibilities of the Human Resources Committee include authorizing the Compensation Policy and ensuring a succession plan for senior management positions.

The Human Resources Committee supports BDC's HR strategy, which is based on fostering a culture of engagement, learning and growth. The strong correlation between employee engagement, client satisfaction and business performance validates the belief that the calibre of our employees is fundamental to our ability to deliver a level of service our clients expect from BDC.

The Human Resources Committee also supports BDC's commitment to the development of its leadership cadre to ensure organizational success in the future.

During fiscal 2004, the Committee held six meetings, during which several key HR initiatives were reviewed and approved. These included a review of BDC's Total Rewards policies and programs, the implementation of the BDC pension Web site, the second President's Leadership Forum, and the development and implementation of the Diversity Action Plan. In addition, the HR Committee reviewed and approved BDC's compensation programs and payments, and the corporate succession plan.

Chairperson: Gordon J. Feeney
Members: Leo E. Cholakis, Léandre Cormier, Jennifer Corson, Louis J. Duhamel, Oryssia Lennie

ension Fund Committee and the Trustees of the Pension Fund

he Pension Fund Committee and the Trustees of the Pension Fund monitor the activities of the pension fund, ensure that it is administered nd financed in accordance with applicable legislation, and verify that any changes to the fund reflect the Committee's terms of reference.

he Committee met four times during fiscal 2004 to review the performance of the fund's investment managers, the Financial Statements and ne actuarial assumptions of the pension plan. Changes were made to the management structure to enhance the fund's financial performance nd stability.

ue to improved domestic and international stock markets, the fund reported a positive return on its assets for the year ended December 31, 2003.

Chairperson: Leo E. Cholakis
Members: Clément Albert, Cynthia Desmeules-Bertolin, Léandre Cormier, Mary Karamanos, Roslyn Kunin, Yves Milette, Cedric E. Ritchie, André Bourdeau

redit/Investment Committee (formerly the Executive Committee)

he Credit/Investment Committee met 24 times in fiscal 2004. It approved loans and venture capital investments that exceeded Management's elegated authority.

Chairperson: Cedric E. Ritchie
Members: James A. Durrell, Gordon J. Feeney, Terry B. Grieve, CA, Roslyn Kunin, Jean-Claude Villiard, André Bourdeau

pecial Committee

n the aftermath of the François Beaudoin judgment, the Board of Directors approved the creation of an interim Special Committee to deal with pecific matters arising from that judgment.

Chairperson: Cedric E. Ritchie
Members: Leo E. Cholakis, N. Murray Edwards, Gordon J. Feeney, Terry B. Grieve, CA

10 Board of Directors

O.C.
Chairman of the Board, Business Development Bank of Canada
Toronto, Ontario

Cedric E. Ritchie, O.C., has been Chairperson of the Business Development Bank of Canada since January 2001. Mr. Ritchie was Chairman and CEO of The Bank of Nova Scotia from 1974 until his retirement in 1995. He sits on the boards of several organizations including Canada Post Corporation, Mercedes-Benz Canada and Twin Mining Corporation. Mr. Ritchie is a Fellow of the Institute of Canadian Bankers and Officer of the Order of Canada. He was inducted into the Canadian Business Hall of Fame in 2000.

Ph.D., C.M., O.C.
President, Roslyn Kunin & Associates Inc.
Vancouver, British Columbia

Dr. Roslyn Kunin joined the BDC Board of Directors on May 25, 1999. She is President of Roslyn Kunin & Associates Inc., an economic consulting firm. Previously, she was a regional economist with Employment and Immigration Canada and held several academic positions. Dr. Kunin is past Chair of the Vancouver Stock Exchange and former Executive Director of The Laurier Institution. Dr. Kunin is a Member of the Order of Canada.

Acting President and Chief Executive Officer and Executive Vice President, Financial Services and BDC Consulting Group
Montréal, Quebec

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the Université de Sherbrooke.

President, Renovators Resource Inc.
Halifax, Nova Scotia

Jennifer Corson, a Director of BDC since October 27, 1998, is President of Renovators Resource Inc., a principal of Solterre Design, and Vice President of Pick & Shovel Productions Limited. She is a published author, small business entrepreneur and green building specialist. She was also the winner of the BDC Young Entrepreneur Award for Nova Scotia in 1996.

Deputy Minister, Industry Canada
Ottawa, Ontario

Jean-Claude Villiard, who joined the BDC Board of Directors on June 18, 2003, is Deputy Minister, Industry Canada. Previously, he was President and Chief Executive Officer of Canada Mortgage and Housing Corporation. He was also Director of the World Bank's Infrastructure Development Group – Middle East and North Africa and held several senior management positions, including President of SNC Lavalin Capital Inc. Earlier, Mr. Villiard was Deputy Minister of International Affairs and Associate Deputy Minister of Energy and Resources with the Quebec Government.

Deputy Minister, Western Economic Diversification Canada
Edmonton, Alberta

Oryssia Lennie, a BDC Board member since October 27, 1998, is Deputy Minister of Western Economic Diversification Canada, which, as a federal department based in western Canada, provides a variety of services to small and medium-sized businesses. Previously, she held various positions within the Government of Alberta, including Deputy Minister of Federal and Intergovernmental Affairs.

Partner, Taktik
(Division of Secor Conseil Inc.)
Montréal, Quebec

Louis J. Duhamel, who became a BDC Director on April 30, 2003, has held various positions with Secor Conseil Inc., one of Canada's leading management consulting groups. He is currently a partner in Secor's SME division, Taktik, which he co-founded. Mr. Duhamel also teaches at the Institut du commerce électronique.

Our sincere appreciation is extended to V. Peter Harder for the role he played in the development of BDC. His term expired in May 2003.

ıre Cormier

éandre Cormier President and Owner West-Wood Industries Ltd. Scoudouc, New Brunswick	Léandre Cormier became a Director of BDC on August 15, 2002. He is President and owner of West-Wood Industries Ltd. of Scoudouc, New Brunswick which produces high-end custom windows and doors and other value-added wood products for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the president and owner of Georgetown Timber Ltd., of Georgetown, P.E.I.
Senior Advisor, Métis Nation of Alberta Edmonton, Alberta	Cynthia Desmeules-Bertolin, who joined the BDC Board on March 12, 2002, is the legal advisor to the Métis Nation of Alberta on the Aboriginal Rights agenda. Ms. Desmeules-Bertolin is a National Jurist for the PAR (Progressive Aboriginal Relations) Program at the Canadian Council for Aboriginal Business. She has served as a Vice-Chair of the National Aboriginal Economic Development Board federally and as a Director for Apeetogosan Métis Development Inc.
eo E. Cholakis, LL.B. Managing Director, Kensington Building Ltd. Winnipeg, Manitoba	Leo E. Cholakis became a member of BDC Board of Directors on May 25, 1999. A commercial lawyer, Mr. Cholakis is Managing Director of Kensington Building Limited and President of Fairmont Real Estate Limited in Winnipeg. Previously, he served as a Director of the Bank of Canada.
President, Capital Dodge Chrysler Jeep Ltd. Ottawa, Ontario	James A. Durrell joined the BDC Board of Directors on May 25, 1999. He is President of Capital Dodge Chrysler Jeep Ltd. in Ottawa. He has held many business and public service positions, including two years as President of the Ottawa Senators and six years as Mayor of Ottawa.
Barbara Stymiest, FCA Chief Executive Officer, TSX Group Toronto, Ontario	Barbara Stymiest, a Director of BDC since August 15, 2002, is Chief Executive Officer of TSX Group where she oversees operations and leads the strategic development of both the senior and junior capital markets. Ms. Stymiest is a member of the TSX Board and a Director of the Canadian Depository for Securities, Market Regulation Services Inc., the Canadian Capital Markets Association, and the World Federation of Exchanges. She is also a member of the CICA Accounting Standards Oversight Council, Toronto Rehab Foundation and the Campaign Cabinet of the United Way of Greater Toronto.
Terry B. Grieve, CA Principal, Ventures West Management Inc. Saskatoon, Saskatchewan	Terry B. Grieve, who joined the BDC Board on April 30, 1996, is a native of Saskatchewan and a principal of Ventures West Management Inc., a private, professional venture capital management firm. He is also Executive Vice President of the Saskfund group of companies
Company Director Toronto, Ontario	Gordon J. Feeney, who became a BDC Director on March 12, 2002, a former Deputy Chairman of RBC Financial Group, retired in 2001 following a distinguished career in the financial industry. Mr. Feeney is currently Chairman of several companies, including Finance Corporation of Bahamas, Moneris Solutions Corporation, RBC Mutual Funds Inc. and Canadian Management Center. He also serves on the Boards of Directors for American Management Association, Rideau Inc., Davis + Henderson G.P. Inc. and International Survey Research Group. In addition, he is the Honorary Consul for The Commonwealth of the Bahamas and serves on several community boards.
Absent N. M President, Edco Financial Holdings Ltd. Calgary, Alberta	N. Murray Edwards, a Director of BDC since March 31, 1998, is President of Edco Financial Holdings Ltd., a Calgary-based merchant banking corporation. He has extensive experience in the financial industry, as a lawyer and as director of numerous public and private companies

Acting President and Chief Executive Officer and Executive Vice President, Financial Services and BDC Consulting Group

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the Université de Sherbrooke.

Executive Vice President, Integrated Risk and Technology Management

Edmée Métivier joined BDC in 2000. She is responsible for Systems and Technology, Credit Risk Management, Treasury, Integrated Risk and Portfolio Management and Aboriginal Banking Services. She came to BDC following a 20-year career with RBC Financial Group. Ms. Métivier is a member of the Advisory Board of McGill Institute of Marketing (MIM), McGill University and is a Board member of Shad International, the Montréal Women's Y Foundation and Precarn Incorporated. She holds a M.A. in Practicing Management from University of Lancaster, England.

Senior Vice President, Corporate Affairs and Chief Planning Officer

Guy G. Beaudry joined BDC in October 2001. He is responsible for Corporate Planning and Research, Marketing and E-business, Internal Audit and Inspection, Public Affairs, Shareholder Relations and Advertising, Legal Affairs and Corporate Secretariat. Previously, he was Chairman and Chief Executive Officer of Wavepath, a Silicon Valley wireless telecom business unit of Groupe Vidéotron and, earlier, Senior Vice-President, Corporate Affairs, of Groupe Vidéotron. Mr. Beaudry, a Law graduate of the Université de Montréal, is a past Chairman of the Board of the Canadian Cable Television Association and an alumnus of Canada's Top 40 Under 40.

Executive Vice President, Investments

Michel Ré is responsible for subordinate financing and venture capital activities. He has more than 25 years of experience at BDC, where he has held a wide variety of positions in financing and consulting services, gaining an in-depth knowledge of the needs of entrepreneurs in many sectors of the economy. Mr. Ré holds a Bachelor of Administration degree from the Université du Québec à Montréal. He is a governor of the Quebec Venture Capital Association, Board member of Sommet Capital 2000 and was a member of the board of the Canadian Venture Capital Association.

Senior Vice President, Operations Quebec and Atlantic Region

Michel Bourret has been with BDC since 1969, during which time he has held various positions of increasing responsibility in the credit field. Prior to taking on his current position, he was Vice President, Credit Risk Management at Head Office. Mr. Bourret also worked at CIBC for several years and served as a member of the board of directors of the Fondation de l'Hôpital Charles-Lemoyne. He holds a Bachelor of Arts degree and a commerce degree from the École des Hautes Études Commerciales.

Senior Vice President
Operations
Ontario Region

Jacques Lemoine has been with BDC since 1974. Previously, he was Senior Vice President, Credit Risk Management, responsible for BDC's lending and for managing its portfolio in Canada. Before joining BDC, he held a number of positions in a chartered bank. Mr. Lemoine is involved in economic development associations, and community organizations such as Rotary, Chambers of Commerce, Junior Achievement. He is a past President of the Montréal Chapter of the Risk Management Association, an international association of lending and credit risk management professionals.

lan B. Marquis Mary K

Alan B. Marquis
Senior Vice President
Finance and Chief Financial Officer

Alan B. Marquis joined BDC in 1995. His responsibilities include Financial Re... and Control, Financial Planning, Loan Accounting ... Back Office O... and R... Estate Facilities Management. Before ... BDC, Mr. Marquis was Executive Vice Pres... of Cast North America Inc., responsible for Finance, Container Operations and Logistic... Previously, he was Chief Financial Office... at Canada ... Mr. Marquis hold... a Bachelo... Commerce degree from the University of Edinburg... Scotland and is a member of the Institute of Chartered Accountants o...

Mary Karamanos
Senior Vice President
Human Resources

Mary Karamanos, who joined BDC in ... implementation of BDC's human resources ... strategic human resources and has held s... Corby Distilleries in C... Allied Domecq, Spirits and Wine, U.S.A. Sh... ndustrial Relations from McGill University and a CCP designation (Certified ... fessional) from World at Work. She is active in the community and supports a numbe... ildren's charities.

Clément Albert
Vice President and Treasurer

Clément Albert joined BDC in 1981 and ... hedging operations of BDC, as well as admi... asury Department. Mr. Albert is a trustee of the Per... Continuity Planning of Head Office and t... Previously, he was Director, Capital Markets. Mr. Albert also has experience ... f Montreal and th... Canada. He holds a Bachelor of Arts (Finance M...or) from the École des H... Commerciales de Montréal.

Richard Morris
Vice President, Audit and Inspection

Richard Morris has been with BDC ... 1979. Starting ... sively ... Controller's Department, becoming the Corporate Controller ... He then moved to Audit and Inspection as t... Chief A... management and ethics for BDC. Mr. Morris obtained ... London, England, a... Honours in Business Studies (Finance) at ... Polytechnic. He ... member of the board of governors of S...

Daniel Martel
Senior Vice President
Credit Risk Management

Daniel Martel has been with BDC since 1981 in posit... creasing resp... held the positions of Account Manager ... h Manager, Assistant Vice President for East... Ontario and Vice President and Area Manager f... r Western ... ébec. For the l... he was Vice President, Operations Support ... initiative... responsi... for th... of business processes and redefining BDC's organizational structure. H... Finance Honours degree with a major ... Accounting ... the Board ... Entreprises du Québec.

Charlotte Robb
Senior Vice President, Operations
Prairies and Western Region

Charlotte Robb joined the Business Development B... September 2002. Based in Edmonton, Ms. Robb c... CIBC, where she was Vice President and Regional Ma... Northwest Territories. Ms. Robb serve... on the board ... Institute. She is strongly involved in her commun... 1996 and 1997.

Public Policy

Dedicated to Canadian entrepreneurs for six decades

The Business Development Bank of Canada (BDC) was created in 1944 under the name Industrial Development Bank (IDB). In 1975, the Federal Business Development Bank succeeded IDB. Twenty years later, its name was changed to BDC along with a new mandate as a commercial Crown corporation. Throughout the years, BDC may have operated under different names, but its mission has remained the same: to support Canadian entrepreneurs with timely and customized business solutions.

BDC's mandate is stipulated in the 1995 *Business Development Bank of Canada Act* and was renewed for 10 years in 2002 by the Parliament of Canada, which confirmed BDC's public policy role to act as a complementary institution to fill gaps in the Canadian financial services market.

To fulfill its mandate, BDC has put its key corporate values – ethics, clients and teamwork – to work to serve the best interests of entrepreneurs. Over time, it has refined its client-oriented approach, by conducting surveys related to client (potential and current) expectations and perceptions on specific issues. As a result, BDC has developed comprehensive knowledge of what clients want, enabling it to provide them with business solutions that meet their needs.

A client-driven corporate structure

BDC's client-oriented approach is defined by the various business solutions it offers. It is also reflected in the way BDC is structured. For the last three years, BDC's clients have enjoyed the benefits of more decentralized decision-making at the regional level. Decisions are ultimately more responsive to client needs, quicker to implement and even more personalized.

[illegible] circumstances

In fiscal 2004, the Canadian economy was hit by a rare combination of natural disasters, disease and economic slowdown. Determined to assist clients impacted by SARS, fires in Western Canada and Hurricane Juan in the Maritimes, BDC acted swiftly. It allowed clients to postpone their capital payments for a four-month period without penalty. It also offered clients a working capital loan of up to $50,000. These initiatives were designed to help clients overcome temporary difficulties, but they also show how BDC fulfills its mandate to support Canadian entrepreneurs in good times and bad.

Client-focus breeds excellent results

BDC's client-centric approach is clearly paying off. In fiscal 2004, our dedicated team of 1,400 employees, working in more than 80 branches across the country, served the requirements of some 23,000 clients. Significantly, our client satisfaction rate reached 91 percent. This proves that BDC's know-how, which is translated into client-focused business solutions, reflects client needs. Apart from this tangible recognition of its work, BDC achieved a good overall performance in 2004, which reinforced the relevancy of its public policy mandate.

For the second year in a row, BDC's net authorizations exceeded $2 billion. This significant milestone reflects activity across Canada. BDC's financing solutions such as subordinate financing, Co-Vision Loans, Productivity Plus Loans, as well as Innovation Loans have led the way. In fiscal 2004, BDC recorded an overall profit of $59 million and declared dividends of $10.7 million to its sole shareholder, the Government of Canada.

Venture capital in recovery

There is renewed confidence in the economy that should stabilize activities in the Canadian venture capital industry. BDC Venture Capital notes that client businesses are faring better and its portfolio is showing a positive return for 2004.

The overall decline in industry activities resulted in increasing BDC's share of the market. By continuing to invest despite a 41-percent decrease in disbursements, BDC now accounts for 6 percent of total disbursements and some 9 percent of all venture capital transactions in Canada according to data released by Macdonald & Associates.

Acknowledging BDC's long-standing experience and wide expertise in venture capital across Canada, the federal Minister of Finance announced in his 2004 Budget Speech that the Government of Canada had earmarked $250 million to increase BDC's venture capital activities. This amount will be allocated to support start-up knowledge-based businesses, namely in their commercialization efforts.

BDC and Caisse de dépôt et placement du Québec. A natural fit

In fiscal 2004, BDC concluded an important strategic alliance with Caisse de dépôt et placement du Québec. The two partners will invest up to $300 million to help developing businesses across Canada achieve their growth objectives and have agreed that BDC will manage this joint venture. In signing this agreement, the Caisse acknowledged BDC's expertise in this market and the value of its Canada-wide network.

BDC Consulting: Value-added advice for entrepreneurs

Due to its partnership with a network of private sector consultants, BDC is the only financial institution in Canada that offers nation-wide consulting services, an asset that enables it to provide clients with value-added expertise. In fiscal 2004, BDC Consulting revenues from activities reached $20 million. Demand for growth solutions – strategic planning, operations management and sales and marketing strategies – significantly increased in 2004, demonstrating that profitability and productivity issues are vitally important to entrepreneurs.

Women entrepreneurs: A force to be reckoned with

For many years, BDC has chosen to partner with firms led by women, thereby acknowledging an undisputed fact: businesses owned by women constitute one of the fastest-growing segments of the Canadian economy. They now represent almost a quarter of BDC's lending customers. Determined to reinforce its commitment to women entrepreneurs, BDC created a new $25 million quasi-equity fund in fiscal 2004 designed to increase the availability of financing for these businesses.

Apart from ensuring financial support to women entrepreneurs, BDC also sponsored important initiatives in the past year, such as the Women Presidents' Organization (WPO) Conference luncheon in San Francisco in February 2004. BDC was the proud sponsor of the first Canadian chapter of the WPO, in recognition of what this organization does for the advancement of women in business. BDC currently supports two WPO chapters in Toronto. It expects to sponsor one more in the near future; other chapters could also be added in Montréal and Calgary. BDC will continue to work with its business partners, including the Réseau des SADC du Québec, to further promote women entrepreneurship in Canada.

Supporting Aboriginal economic development

Recognizing the growing importance of the Aboriginal market in Canada, BDC established an Aboriginal Banking Unit in 1996 to play a leadership role and increase its visibility in this market. Beyond the lending activities designed for Aboriginal businesses, BDC put forward several initiatives in fiscal 2004. For the fourth consecutive year, it organized the E-Spirit Aboriginal Youth Business Plan Competition. This Internet-based initiative has enabled several hundred Aboriginal students across Canada, from grades 10 to 12, to complete a business plan using online modules.

BDC also created an Aboriginal Business Development Fund that combines financing with management training and ongoing mentorship. Through this program, BDC has allocated $1 million to four pilot projects in various regions of Canada. The partnering Aboriginal community-based organization manages all loans, training and mentorship related to this program. BDC Consulting also offers customized business solutions to Aboriginal businesses and organizations, including strategic planning, growth strategies and ISO certification. With its timely and well-targeted initiatives, BDC is helping Aboriginal entrepreneurs increase their access to financing and improve their management skills.

Small Business Week®: Celebrating Canadian entrepreneurship for a quarter of a century

In addition to the 60th anniversary of the founding of BDC, 2004 marks the 25th anniversary of Small Business Week®. For a quarter of a century, BDC has paid tribute to the accomplishments of Canadian entrepreneurs. Over the years, Small Business Week® has become the annual event par excellence for the country's entrepreneurs. During Small Business Week®, 13 Young Entrepreneur Awards are presented yearly to talented young entrepreneurs who have distinguished themselves with their innovative spirit and business acumen. The last awards presentation was held in Halifax on October 20, 2003.

Winners of the 2003 Young Entrepreneur Awards were also invited to the second edition of BDC Forum, a one-day training and sharing session during which they had the opportunity to meet BDC senior executives, academics and business leaders who have made their mark in a specific business sector. The participating young entrepreneurs also benefited from information sessions organized by BDC Consulting that provided them with guidance for managing their businesses.

Useful Web site resources at your fingertips

Guidance and other relevant information are also available on BDC's Web site. With a few mouse clicks, Canadian entrepreneurs have access to a full spectrum of services that includes advice on starting a business, financing exports and many other business topics. In addition, Web users can consult BDC's *Profit$* newspaper online and benefit from *eProfit$*, BDC's monthly electronic newsletter.

In November 2003, BDC launched its new BDC Connex Web site for clients. The site offers secure access to account information, such as debit notices, past payments and interest rates. It also includes many free features, such as a benchmarking tool that allows clients to compare their receivables, payables and inventory turnover with benchmarks in their industry sector. Furthermore, clients can consult more than 100 free articles offering information and timely advice that could help them better manage their companies.

Shared core values

During its 60 years of existence, BDC has developed a wealth of expertise to address the needs of entrepreneurs. In light of the productivity and innovation challenges Canada is currently facing, BDC can be a solid partner for entrepreneurs by offering them what it knows best: comprehensive and customized business solutions provided by seasoned professionals who understand their needs and respond with quality service.

The key to BDC's success may be summed up in one word: people. Throughout the years, BDC has relied on the continuous commitment of competent, dedicated and ethical professionals to carry out its mission. The experience and expertise of our people represent tremendous assets for BDC and strongly contribute to its success.

At BDC, employees do matter. BDC rewards productive employees for the quality and consistency of their work. Employee surveys, special training sessions and one-on-one meetings are means by which BDC can better understand its employees and contribute to their work efficiency.

For BDC, having the right people who share the core corporate values of ethical leadership, customer focus and teamwork is essential. These values are shared, endorsed and understood by all. They represent the foundation on which we do business and fulfill our public policy mandate. BDC's corporate values are, in fact, a strong business statement that assures clients they will always benefit from the quality of service they have rightly come to expect. It is a solemn guarantee built on 60 years of rock-solid experience.

Economic Background

After two years of turbulent global economic activity, 2003 was a turnaround year, particularly for the United States which began to show signs of a much anticipated economic rebound during the second half of the year. In Canada, economic growth was challenged by a long list of negative shocks in 2003 that affected many regions of the country: severe acute respiratory syndrome (SARS), the softwood lumber dispute, forest fires in British Columbia, the Ontario power blackout, Hurricane Juan in Atlantic Canada and the mad cow disease scare in the West. While these unusual occurrences had a negative effect on quarterly distribution of economic growth in 2003, the economy fared moderately well, with growth of 1.7 percent, roughly half the pace of 3.3 percent of 2002. Overall, the 2003 expansion positioned Canada in the mid-range of G7 economic growth.

Sound macroeconomic and structural policies were fundamental to achieving sustainable economic growth. While the federal government managed to avoid a deficit, all levels of government sought new ways to control spending. One of the major economic developments of the year was the significant recovery of the Canadian dollar against the U.S. dollar.

The dollar's appreciation brought mixed results. The stronger dollar dampened export growth for 2003 as a whole, despite the burgeoning economy of the United States, Canada's largest trading partner. Yet, businesses began to respond and take advantage of the higher dollar by increasing their investment in machinery and equipment and advanced technologies to improve their competitiveness. A 15-percent increase in corporate operating profits in 2003 positioned businesses for more productivity-enhancing investments for this year.

Industrial capacity utilization recorded its biggest jump in almost a decade in the fourth quarter of 2003. Industries operated at 82.9 percent compared with 81.3 percent in the third quarter. This was the largest quarterly gain since the second quarter of 1994. The fourth-quarter increase in overall capacity use was largely due to the manufacturing sector, which posted the strongest growth in its rate in more than nine years. Still, at these levels, Canada has the ability to respond to a sharp increase in demand for its goods and services.

Lower export levels negatively impacted employment growth, particularly in manufacturing. Over 2003, 271,000 new jobs (growth rate: 1.7%) were added to the economy, down from the 3.7% (560,000 jobs) growth rate observed in 2002. The slowdown in employment growth in 2003 is attributable to job losses in the manufacturing sector, reflecting a vulnerability of the Canadian economy. While weakened employment growth negatively impacted some consumer spending, historically low interest rates continued to fuel residential investment growth. More recently, there were indications of improved consumer confidence particularly with respect to their near-term financial prospects.

Entrepreneurship continues to be the engine of the Canadian economy: entrepreneurs represent close to half of private sector GDP and employ over 60 percent of the workforce in the private sector. Large in number but small in size, they continue to fall behind larger Canadian companies and their U.S. counterparts in innovation adoption, a key component of productivity. Many have difficulty in making the quantum leap from small to medium-sized, their growth often hampered by their inability to compete on a national or international scale.

The current strength of the Canadian dollar and positive global economic growth present unique opportunities for Canadian businesses to improve their productivity. In an ever-changing environment, businesses must constantly reinvent themselves by developing new products and adopting more efficient processes to be successful competitors in the global arena.

In this context, there has never been a more critical time for BDC's complementary role – that is, its role in supporting and contributing to the success of Canadian entrepreneurs. Tapping the full potential of innovative entrepreneurs requires that they have access to the right tools to succeed: value-added debt and equity financing and consulting services. As a provider of these business solutions to Canadian entrepreneurs, BDC aims to encourage increased investment of Canadian businesses so that they can address the innovation challenge and be mobilized into innovative action.

Environmental Message

Our environmental commitment

For BDC, sound environmental management is more than good business practice, it also helps build a sustainable future for generations to come.

Environmental issues have never been more important than in today's world. A growing number of governments is choosing to ratify international treaties and adopt environmental legislation. Businesses are increasingly required to implement environmental standards and practices. BDC is part of this global trend.

Each and every one of BDC's financing decisions is subject to an environmental review. In the early 1990s, BDC developed its own Environment Risk Policy to ensure that all credit decisions would include environmental assessment of potential business ventures. At BDC, we believe that good strategic environmental management brings many advantages, including improved efficiency, better compliance with environmental laws, increased customer loyalty and a positive image of environmental responsibility.

The terms of our commitment

- Our clients must abide by environmental legislation.
- Our clients must provide details on all environmental concerns related to each property and business activity.
- Our managers review all site reports specific to a business.
- Our managers inspect the sites in person and are on the lookout for potential environmental risks.
- Our clients can be asked to provide environmental assessments on properties to confirm compliance with environmental legislation.
- BDC will not extend financing if there is an environmental issue that is not or cannot be resolved by the client.

Atlantic Provinces

Eastern Canada's innovative life sciences cluster, fuelled by the rapid convergence of biotechnology and information technology, is poised to provide tremendous opportunities in the years to come in the bio-industries, wood science and marine science sectors. In 2003, increased production limits at Newfoundland's Hibernia and Terra Nova projects and continued capital spending in Nova Scotia's energy sector created the momentum for economic growth in Atlantic Canada, including construction related to energy projects. BDC will continue to be there for businesses in the Atlantic provinces as they explore opportunities in new and exciting fields.

Management	Branches	
Ross Miller Vice President and Area Manager Newfoundland and Labrador	Corner Brook Grand Falls	St. John's*
Craig Levangie Vice President and Area Manager Nova Scotia	Halifax* Sydney	Truro Yarmouth
Claude Paré Vice President and Area Manager New Brunswick and Prince Edward Island	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.)	Fredericton (N.B.) Moncton* (N.B.) Saint John (N.B.)

* Location of Entrepreneurship Centers

Lending Authorized Classification by Province

for the years ended March 31

	2004 Number	2004 Net amount ($000)	2003 Number	2003 Net amount ($000)
Newfoundland and Labrador	**358**	**$ 85,979**	322	$ 89,122
Prince Edward Island	**36**	**10,922**	20	5,455
Nova Scotia	**164**	**30,500**	185	57,692
New Brunswick	**261**	**62,543**	256	67,278
Total	**819**	**$ 189,944**	783	$ 219,547

Commitment to Lending Clients Classification by Province

as at March 31

	2004 Number of clients	2004 Amount ($000)	2003 Number of clients	2003 Amount ($000)
Newfoundland and Labrador	**1,147**	**$ 332,879**	1,028	$ 290,692
Prince Edward Island	**137**	**50,441**	142	44,815
Nova Scotia	**648**	**177,313**	660	174,014
New Brunswick	**932**	**296,966**	929	285,063
Total	**2,864**	**$ 857,599**	2,759	$ 794,584

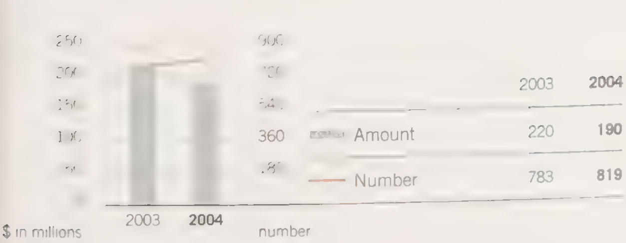
Consulting

for the years ended March 31

	2004	2003
Revenue ($000)	**$ 1,369**	$ 1,336
Percentage of repeat business served	**36%**	30%

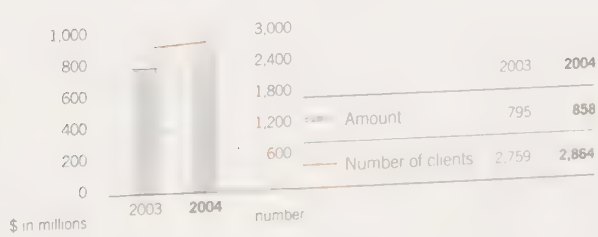
Lending Authorized

for the years ended March 31



Commitment to Lending Clients

as at March 31



Quebec

Quebec leads the way in genomics which is not only an engine of economic growth, but the very heart of the biotechnology evolution that is uncovering new knowledge about the functioning of living organisms and the causes of disease. BDC proudly supports this innovative sector where intellectual capital is the most important commodity.

Management	Branches	
Thierry Limoges Vice President and Area Manager Eastern Quebec	Chaudière-Appalaches Chicoutimi	Québec City* Rimouski
France de Gaspé Beaubien Vice President and Area Manager Southern Quebec	Drummondville	Longueuil*
Alain Gilbert Vice President and Area Manager Northern Quebec	Laval* Lower Laurentians/Lanaudière	Rouyn-Noranda
Michel Crête Vice President and Area Manager Montréal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Jean-Robert Lacasse Vice President and Area Manager Western Quebec	Pointe-Claire	Saint-Laurent*
France Bergeron Vice President and Area Manager Regional Quebec	Hull Saint-Jérôme Sherbrooke	Trois-Rivières

* Location of Entrepreneurship Centers

Lending Authorized

for the years ended March 31	2004 Number	2004 Net amount ($000)	2003 Number	2003 Net amount ($000)
Quebec	**2,776**	**$ 873,830**	2,115	$ 728,032

Commitment to Lending Clients

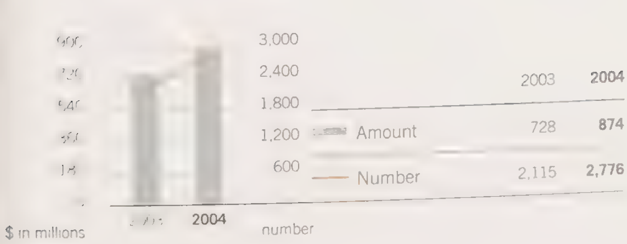
as at March 31	2004 Number of clients	2004 Amount ($000)	2003 Number of clients	2003 Amount ($000)
Quebec	**7,882**	**$ 3,310,462**	7,347	$ 2,955,762

Consulting

for the years ended March 31	2004	2003
Revenue ($000)	**$ 9,190**	$ 8,666
Percentage of repeat business served	**59%**	49%

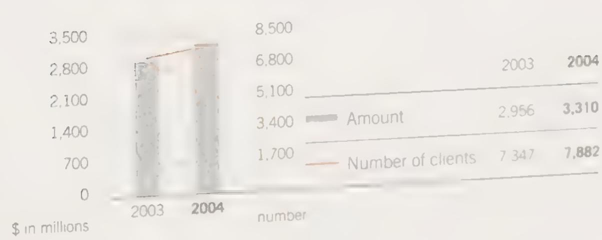
Lending Authorized

for the years ended March 31



Commitment to Lending Clients

as at March 31



Ontario

Ontario's burgeoning services sector, which encompasses everything from real estate, communications and utilities to consumer and education services, today represents over three quarters of employment in the province. This dynamic sector has seen a 20 percent increase in the last 10 years, and is generating high-skilled jobs at a steady rate.

In addition, as the number of families in which both parents work continues to increase, businesses that provide support services ranging from gardening to personal grooming are growing right along with them, often assisted by BDC.

Management	Branches	
Peter Lawler Vice President and Area Manager Eastern and Northern Ontario	Kingston	Ottawa*
Chuck Smith Vice President and District Manager Northern Ontario	North Bay Sault Ste. Marie Sudbury	Thunder Bay Timmins
Howard Shears Vice President and Area Manager Southern Ontario	London* Stratford	Windsor
Michel Leduc Vice President and Area Manager Toronto	Barrie North York	Toronto* Toronto North
Brendan Cunneen Vice President and Area Manager Toronto East	Durham Markham	Peterborough Scarborough*
Pat Ghany Vice President and Area Manager Mississauga	Brampton	Mississauga*
Kevin Dane Vice President and Area Manager Halton-Niagara	Halton* Hamilton	Kitchener St. Catharines

* Location of Entrepreneurship Centers

Lending Authorized

for the years ended March 31	2004 Number	2004 Net amount ($000)	2003 Number	2003 Net amount ($000)
Ontario	**2,139**	**$ 681,374**	2,017	$ 741,143

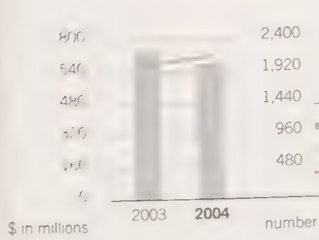
Commitment to Lending Clients

as at March 31	2004 Number of clients	2004 Amount ($000)	2003 Number of clients	2003 Amount ($000)
Ontario	**7,126**	**$ 2,738,675**	6,795	$ 2,478,651

Consulting

for the years ended March 31	2004	2003
Revenue ($000)	**$ 6,052**	$ 5,250
Percentage of repeat business served	**49%**	44%

Lending Authorized
for the years ended March 31



	2003	2004
Amount	741	**681**
Number	2,017	**2,139**

Commitment to Lending Clients
as at March 31

	2003	2004
Amount	2,479	**2,739**
Number of clients	6,795	**7,126**

06

Prairies, Northwest Territories and Nunavut

An encouraging rebound in crop output due to improved agricultural conditions drove growth in the Prairies' agriculture sector last year. Soaring energy prices, as well as the impetus for investment in the mineral fuels and gas and oil sector, accounted for growth in the energy sector. Manitoba also saw brisk growth in the shipment of transportation equipment, while in the North, diamond mining is continuing to fuel the economy. BDC's tailor-made solutions are the perfect match for entrepreneurs operating in these diverse sectors.

Management	Branches	
[illegible] Vice President and Area Manager Manitoba and Saskatchewan	Brandon (Man.) Kenora (Ont.) Regina (Sask.)	Saskatoon (Sask.) Winnipeg* (Man.)
[illegible] Vice President and Area Manager Southern Alberta	Calgary* (Alta.) Calgary North (Alta.) Calgary South (Alta.)	Cranbrook (B.C.) Lethbridge (Alta.)
[illegible] Vice President and Area Manager Northern Alberta and Northwest Territories	Edmonton* (Alta.) Edmonton South (Alta.) Fort St. John (B.C.)	Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

* Location of Entrepreneurship Centers

Lending Authorized Classification by Province and Territory

for the years ended March 31

	2004 Number	2004 Net amount ($000)	2003 Number	2003 Net amount ($000)
Manitoba	**197**	**$ 40,320**	132	$ 29,374
Saskatchewan	**89**	**19,039**	138	25,141
Alberta	**541**	**123,653**	496	124,326
Northwest & Nunavut Territories	**15**	**6,222**	22	8,115
Total	**842**	**$ 189,234**	788	$ 186,956

Commitment to Lending Clients Classification by Province and Territory

as at March 31

	2004 Number of clients	2004 Amount ($000)	2003 Number of clients	2003 Amount ($000)
Manitoba	**504**	**$ 131,671**	448	$ 110,132
Saskatchewan	**452**	**111,045**	522	118,424
Alberta	**1,502**	**487,838**	1,385	452,972
Northwest & Nunavut Territories	**67**	**33,938**	72	31,284
Total	**2,525**	**$ 764,492**	2,427	$ 712,812

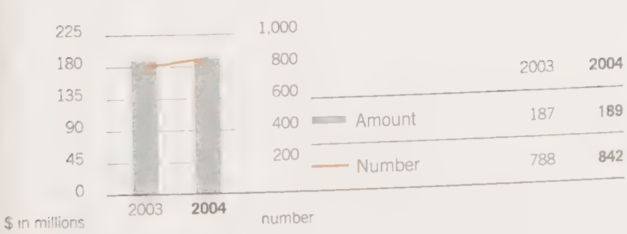
Consulting

for the years ended March 31

	2004	2003
Revenue ($000)	**$ 1,911**	$ 1,762
Percentage of repeat business served	**45%**	47%

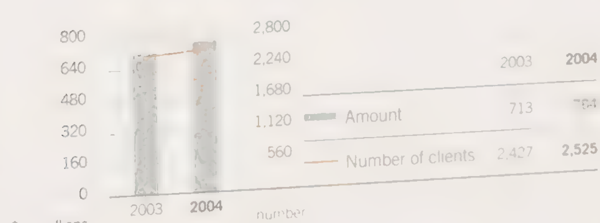
Lending Authorized

for the years ended March 31



Commitment to Lending Clients

as at March 31



British Columbia and Yukon

The bright spots in the British Columbia economy in 2003 were stellar growth in natural gas exports, spurred by an energy boom in the Northeastern part of the province, and the red-hot housing market which gave rise to robust housing construction. In the Yukon, the agriculture sector is proving to be surprisingly vigorous and hardy, exhibiting healthy growth in recent years. Recognizing the potential of this area's enterprising entrepreneurs, BDC provides support for their growth and expansion.

Management	Branches	
Scot Speiser Vice President and Area Manager B.C. North and Interior	Kamloops (B.C.) Kelowna* (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.)
Shirley Bennie Vice President and Area Manager Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey* Vancouver* Victoria

* Location of Entrepreneurship Centers

Lending Authorized Classification by Province and Territory

for the years ended March 31

	2004 Number	2004 Net amount ($000)	2003 Number	2003 Net amount ($000)
British Columbia	**675**	**$ 144,802**	610	$ 153,549
Yukon	**17**	**3,463**	13	2,680
Total	**692**	**$ 148,265**	623	$ 156,229

Commitment to Lending Clients Classification by Province and Territory

as at March 31

	2004 Number of clients	2004 Amount ($000)	2003 Number of clients	2003 Amount ($000)
British Columbia	**2,310**	**$ 660,998**	2,312	$ 632,834
Yukon	**89**	**21,796**	93	21,321
Total	**2,399**	**$ 682,794**	2,405	$ 654,155

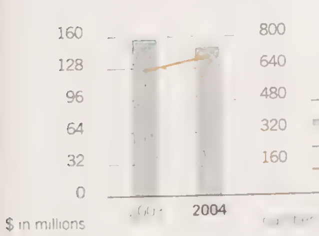
Consulting

for the years ended March 31

	2004	2003
Revenue ($000)	**$ 1,484**	$ 1,207
Percentage of repeat business served	**31%**	47%

Lending Authorized

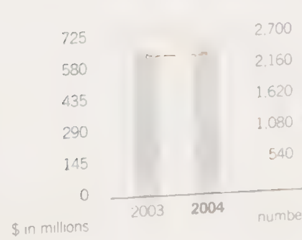
for the years ended March 31



	2003	2004
Amount	156	**148**
Number	623	**692**

Commitment to Lending Clients

as at March 31



	2003	2004
Amount	654	**683**
Number of clients	2,405	**2,399**

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) provides Management's perspective on BDC's performance in fiscal 2004, risk management activities and outlook for 2005.

Objectives, Measures and Targets (pages 31 and 32) summarizes the corporate objectives established in the annual Corporate Plan and the key performance indicators used to measure performance and results for fiscal 2004 and objectives for 2005. These measures are reviewed in more detail in subsequent sections of this MD&A, as shown below.

Clients (pages 33-37) discusses the market needs that BDC serves, the diversity of its clientele and the ways BDC helps Canadian entrepreneurs by providing fast and flexible service. Successful performance is assessed by growth and client satisfaction.

Employee Commitment (page 38) provides an overview of BDC's greatest asset – its employees. It shows how BDC fosters a culture of employee engagement and customer service that in turn makes BDC a more efficient and cost-effective institution. The employee commitment rating is the principal performance measure.

Financial Statements Discussion (pages 39-45) provides an in-depth analysis of the balance sheet and the results presented in the statement of income (pages 53 and 54) with reference to the five other performance measures.

Productivity
Portfolio growth
Consulting revenue
Return on common equity
Venture Capital internal rate of return

This discussion includes the contribution of each of the three business areas – Loans, Consulting and Venture Capital (VC) – and explains significant accounting policies and their effects on BDC's results.

Integrated Risk Management (pages 46-50) summarizes BDC's risk management activities and discusses BDC's approach to managing credit, market, liquidity and operational risks.

Caution Regarding Forward-Looking Statements The MD&A that follows this page includes forward-looking statements and assumptions, based on Management's best estimates. Risks and uncertainties may cause actual results to differ materially from these estimates. Some of the factors that could cause such differences include general economic and market conditions, such as interest rates and currency values and the performance of venture capital investments.

How BDC Reports BDC is governed by the *Business Development Bank of Canada Act* of 1995, and, as a Crown corporation, by Part X of the *Financial Administration Act*.

BDC prepares its financial statements, which are presented on pages 51 to 71 of this report in accordance with Canadian generally accepted accounting principles (GAAP).

To finance its activities, BDC issues debt instruments secured by the Government of Canada. From time to time, it receives equity infusions from the federal government, its sole shareholder. BDC does not require nor receive operating appropriations of Government funds.

OBJECTIVES, MEASURES AND TARGETS

Mandate

BDC's mandate is to support Canadian entrepreneurship by providing financial (loans, venture capital and subordinate financing) and consulting services.

Corporate Objectives

Clients – To create a unique and valued relationship with Canadian entrepreneurs to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees – To foster a culture of engagement, learning and growth (measured by employee commitment).

Efficiency – To establish effective and efficient processes to support local market understanding (measured by the loans productivity ratio)

Financial – To be profitable in order to grow while fulfilling BDC's public policy mandate [measured by the outstanding loans portfolio, the internal rate of return (IRR) of Venture Capital and BDC Consulting revenue] and to generate a return on common equity (ROE) at least equal to the government's long-term cost of funds.

The following table illustrates how BDC measures progress towards the corporate objectives.

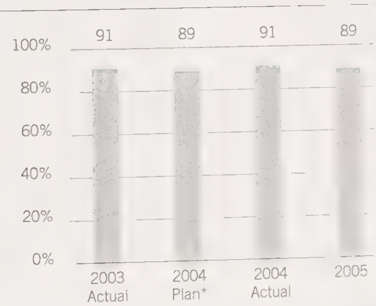
2004 Objectives	2004 Performance	2005 Targets
89% client satisfaction	91%	89%
76% employee commitment	77%	77%
49% productivity ratio	49%	47%
$7.4 billion in outstanding loans portfolio	$7.5 billion	$8.2 billion
16.0% 10-year IRR – Total investments	13.1%	11.0%
$19.0 million in Consulting revenue	$20.0 million	$19.0 million
Return on common equity of 4.2%	5.1%	7.7%

PERFORMANCE AND CORPORATE OBJECTIVES

Performance

Client satisfaction

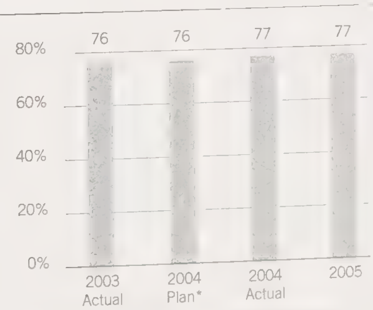
Continued flexibility and valued relationships kept satisfied or very satisfied clients at 91%.



* 86% as per 2004 Corporate Plan
89% represents new internal objective.

Employee commitment

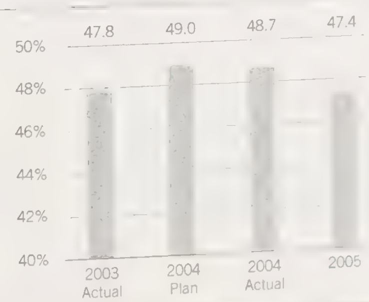
Results from the Employee Engagement Survey showed an improvement to 77% from 76% in 2003, and from the internal objective of 76%, as commitment of BDC's greatest asset remains strong.



* 70% as per 2004 Corporate Plan
76% represents new internal objective.

Loan productivity ratio

As anticipated in the Plan, the productivity ratio increased by almost 1 percent from fiscal 2003, largely due to an $11 million increase in pension costs (the lower the ratio, the higher the efficiency achieved).



2005 Objectives

- Client satisfaction: 89%
- Increase the risk in the portfolio, a move that may decrease client satisfaction over time, due to pricing.

- Employee commitment: 77%
- Enhance and develop leadership.
- Foster open and honest communication.
- Promote self-motivated, lifelong learning and career development.
- Support workforce diversity and differentiation in employee policies and programs.

- Ratio: 47.4%
- Strive for efficiency gains through ongoing refinement of internal processes. Management will remain diligent in its cost control methods
- Use technology efficiently and update current technology applications

Performance

Outstanding loan portfolio

A record $2.1 billion in net loan authorizations in fiscal 2004 supported strong growth in the portfolio, which stood at $7.5 billion at the end of the fiscal year.

Venture Capital 10-year IRR

The slow recovery in the venture capital marketplace in 2004 negatively affected the 10-year IRR, forcing $37 million in write-downs during the year. The 10-year IRR on total investments was 13.1% in 2004 versus 16.3% in 2003.

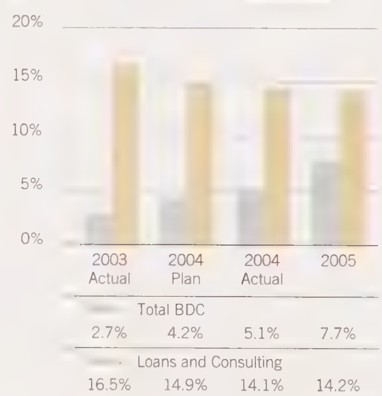
Consulting revenue

BDC recorded Consulting revenues of $20.0 million, ahead of Plan and 2003.

* $16.5 million as per 2004 Corporate Plan
$19 million represents new internal objective.

Return on common equity

- Total BDC ROE of 5.1% was a marked improvement over the 2.7% ROE in 2003, as a result of continued strong loans operations and the improvement in Venture Capital operations.
- ROE on Loans and Consulting was 14.1% in fiscal 2004 versus 16.5% in fiscal 2003, due to a higher average capital base.



2005 Objectives

Outstanding loan portfolio

- Portfolio: $8.2 billion
- Increase risk tolerance in terms of transaction and borrower concentration.
- Broaden the scope of subordinate financing activity to address the needs of high-growth companies through the partnership with Caisse de dépôt et placement du Québec (CDP).

Venture Capital 10-year IRR

- Direct investments: 13.0%
- Total investments: 11.0%
- Continue to develop North American industry networks to create value for portfolio companies.
- Support investment opportunities in the seed and pre-seed environments.

Consulting revenue

- Consulting revenue from activities: $19.0 million
- Continue integrating consulting services with financial services.

Return on common equity

- ROE: 7.7 %
- Generate an ROE at least equal to the government's long-term cost of funds.
- Increase ROE as a result of continued loans growth and continued improvements in Venture Capital.

CLIENTS

BDC strives to create a unique and valued relationship with Canadian entrepreneurs to support the creation and growth of their businesses.

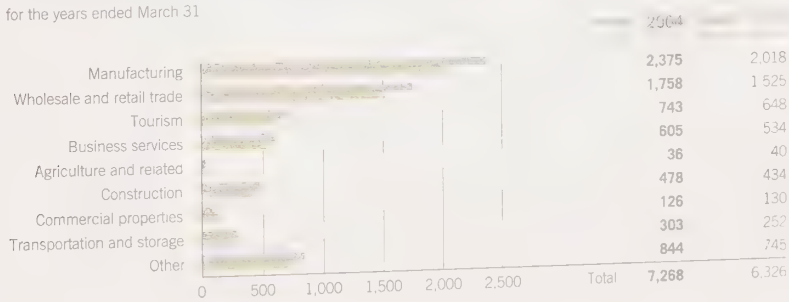
In response to client demand, BDC has been improving its lending processes over the last three years to provide better, faster and more flexible services. BDC makes 95 percent of its credit decisions at the regional level, closer to clients. In 2004, to add more value and facilitate contact between BDC and the client, Financial and Consulting Services were integrated under one line of business. Comprehensive knowledge of what clients need, continuous improvement and expert execution are at the forefront of BDC's relentless focus on clients

TOTAL LENDING COMMITTED / CLASSIFICATION BY PROVINCE OR TERRITORY

as at March 31	2004		2003	
	Number of clients	**Amount ($ in millions)**	Number of clients	Amount ($ in millions)
Newfoundland and Labrador	**1,147**	**$ 333**	1,028	$ 291
Prince Edward Island	**137**	**50**	142	45
Nova Scotia	**648**	**177**	660	174
New Brunswick	**932**	**297**	929	285
Quebec	**7,882**	**3,310**	7,347	2,956
Ontario	**7,126**	**2,739**	6,795	2,479
Manitoba	**504**	**132**	448	110
Saskatchewan	**452**	**111**	522	118
Alberta	**1,502**	**488**	1,385	453
Northwest Territories and Nunavut	**67**	**34**	72	31
British Columbia	**2,310**	**661**	2,312	633
Yukon	**89**	**22**	93	21
Total	**22,796**	**$ 8,354**	21,733	$ 7,596

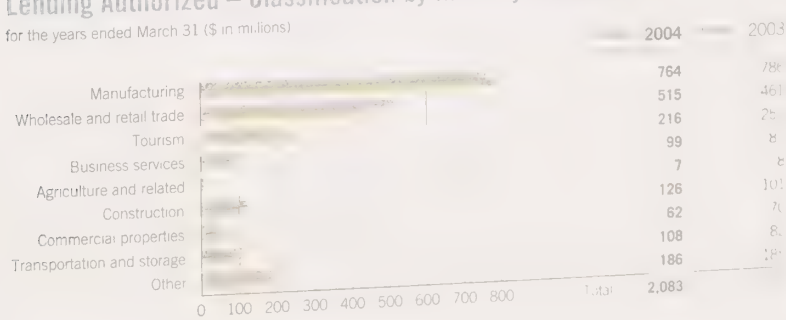
Lending Authorized – Classification by Industry – Number

for the years ended March 31



Lending Authorized – Classification by Industry – Amount

for the years ended March 31 ($ in millions)

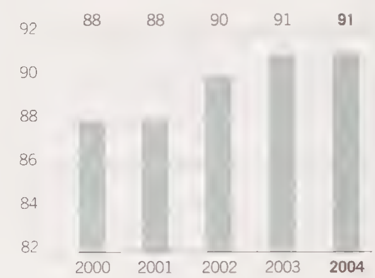


This past fiscal year included unique challenges for many BDC clients. Severe acute respiratory syndrome (SARS), bovine spongiform encephalopathy (BSE), blackouts, forest fires, hurricanes and the substantial increase in the Canadian dollar versus its American counterpart all created challenges. BDC proactively helped clients meet these challenges, in the cases of SARS, Hurricane Juan and the western forest fires, by offering its eligible clients the opportunity to postpone capital payments on their loans for a four-month period, without penalty. BDC also provided its eligible clients access to an additional $50,000 loan to cover working capital shortages. In fiscal 2004, more than 6,000 postponements were granted to some 4,600 clients and more than 800 loans were authorized for a total of $37 million under the special initiatives for these crisis situations.

These initiatives, coupled with BDC's commitment to high service levels, maintained the excellent client satisfaction rating at 91 percent. BDC will continue its commitment to customer service by keeping lending decisions close to the client and ensuring that all employees are able, capable and prompt in responding to client needs in difficult times.

Client Satisfaction Level

as at March 31 (percentage)



In fiscal 2005, BDC will pursue its strategy of assuming more risk in its portfolio through the growth of quasi-equity financing. Given its pricing-to-risk policy, BDC expects that higher prices may affect client satisfaction adversely, which could translate into a decline of two percentage points, from the current level of 91 percent to 89 percent.

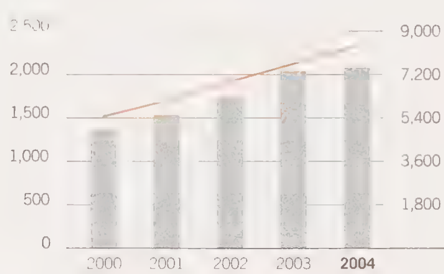
BDC authorized more than 7,000 loans for a total amount of $2,083 million in fiscal 2004; 73 percent of these loan transactions were for amounts of $250,000 or less, including 800 loans authorized under special initiatives to address the fiscal 2004 crises noted earlier.

This record year for authorizations increased BDC's lending commitment to $8.4 billion and the outstanding loans portfolio to $7.5 billion, as at March 31, 2004.

To further help Canadian entrepreneurs, BDC implemented an integrated approach that allows account managers to better identify clients' needs. As a result, clients receive more than just money – they also get help to develop and manage their businesses. This approach helped raise Consulting revenue above Plan as well as increasing the number of clients benefiting from BDC Consulting services.

Total Lending Activities

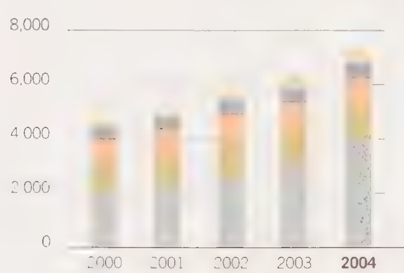
for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	**2004**
Total lending authorized	1,365	1,533	1,739	2,032	**2,083**
Total lending committed as at March 31	5,446	6,057	6,827	7,596	**8,354**

Lending Authorized – Classification by Size

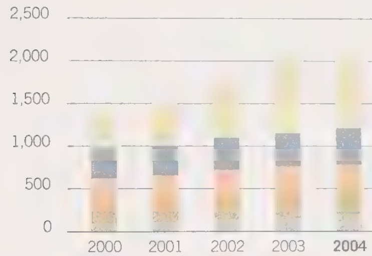
for the years ended March 31 (number of transactions)



	2000	2001	2002	2003	**2004**
$100,000 or less	1,922	2,203	2,574	2,944	**3,919**
Over $100,000 to $250,000	1,189	1,260	1,398	1,438	**1,361**
Over $250,000 to $500,000	857	877	918	962	**940**
Over $500,000 to $1,000,000	488	484	524	543	**593**
Over $1,000,000	231	278	329	439	**455**
Total	4,687	5,102	5,743	6,326	**7,268**

Lending Authorized – Classification by Size

for the years ended March 31 ($ in millions)



	2000	2001	2002	2003	2004
$100,000 or less	99	116	138	156	**210**
Over $100,000 to $250,000	209	219	247	247	**235**
Over $250,000 to $500,000	306	317	332	351	**337**
Over $500,000 to $1,000,000	351	343	373	390	**435**
Over $1,000,000	400	538	649	888	**866**
Total	1,365	1,533	1,739	2,032	**2,083**

Number of Lending Customers by Geographic Area

as at March 31, 2004

1	Atlantic Provinces	13%
2	Quebec	35%
3	Ontario	31%
4	Prairies, Northwest Territories and Nunavut	11%
5	British Columbia and Yukon	10%

Over the last two years, BDC has prudently increased its risk profile by offering less-secured financing designed namely to support start-ups, R&D and productivity improvement. Part of this strategy involved focusing on the small business market (loans under $250,000). BDC realized that it needed teams across Canada to fulfill specific needs of this marketplace. BDC's 19 Entrepreneurship Centers throughout the country provide such expertise.

Every year, BDC clients are contacted through surveys, focus groups, interviews and visits. Through this continuous dialogue, BDC was able to reconfirm gaps in the marketplace. BDC's loan products are designed to fill gaps related to size, flexibility, risk and knowledge. In addition, BDC offers four specific loan product types, which are designed to meet the needs of four distinct market areas.

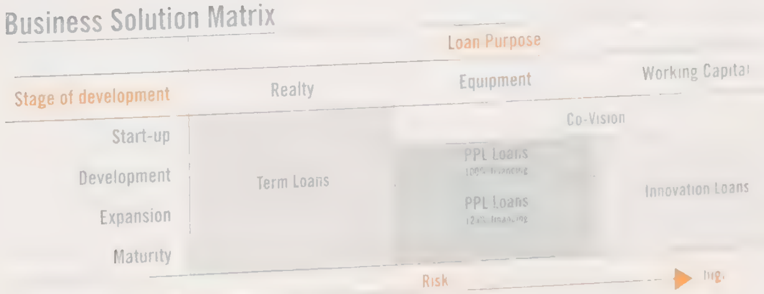
Term Loans: Offer a larger percentage of asset financing extended over a longer term.

Co-Vision Loans (loans up to $100,000): Provide financing for start-ups.

Productivity Plus Loans (PPLs): Provide financing for new or used equipment and machinery that are geared to improve the productivity of the business. PPLs provide up to an additional 25 percent of the total (maximum $500,000) for costs associated to acquire the equipment, such as costs related to installing and assembling the equipment and training the employees who use it.

Innovation Loans (loans up to $250,000): Provide financing for working capital needs to support the development and implementation of an innovation strategy.

Business Solution Matrix



Subordinate financing is a hybrid financial instrument incorporating elements of both debt and equity financing. Including Innovation Loans, BDC authorizations represent over 70% of the Canadian subordinate financing market for transactions under $5 million. BDC's subordinate financing group has been operating since fiscal 2001, and its income, expenses and portfolio are included in Loans Operations results.

In August of 2003, BDC reached a three-year agreement with Caisse de dépôt et placement du Québec (CDP) to create a $300 million subordinate financing fund. This partnership, named AlterInvest Fund L.P., is funded equally by the two parties. BDC acts as general partner and handles all lending and managerial activities of the Fund, in exchange for fees. This partnership funds subordinate financing transactions ranging from $250,000 to $10 million across the country, thereby providing continued and significant support to growing businesses in need of specialized financing. As at March 31, 2004, the total portfolio was at $41.3 million.

Also part of this agreement was BDC's acquisition of $15.7 million from CDP of a 50% interest in the shares of AlterInvest Fund Inc. which holds a Quebec-based portfolio of subordinate debt for which BDC also acts as general partner. BDC takes its share of the income, expenses, assets, liabilities and equity from both these entities.

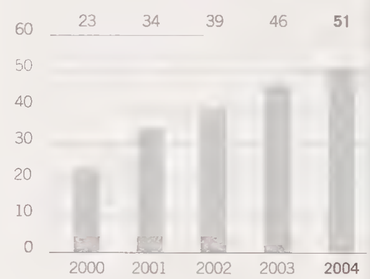
BDC Consulting employees and network of private sector consultants help entrepreneurs assess, plan and implement management solutions to support the development of their businesses.

Consulting Operations were involved in more than 3,000 projects during the year. Total revenue of $20.0 million increased by 10 percent from fiscal 2003, driven partially by increased integration of its activities with Loans Operations. Significant efforts have been deployed over the past years to nurture relationships with our customers.

These efforts have resulted in the fourth consecutive, year-over-year growth of repeat business.

Consulting Repeat Business

for the years ended March 31 (percentage)



Consulting solutions are offered under four segments: growth, quality, export and e-business. Consulting services supporting the growth segment were most appealing to Canadian entrepreneurs last year, reflecting their needs and priorities. Entrepreneurs who used these services received management support in areas such as Operations Management, Human Resources and Strategic Planning from qualified practitioners. BDC earned 21% of its Consulting revenues from activities involving quality-related services, helping businesses achieve ISO and HACCP certification, among others.

Significant efforts were deployed by Consulting services in 2004 to develop methodologies in the areas of Operations Management and Human Resources. The development of an awareness diagnostic designed to help Canadian entrepreneurs improve their productivity was completed toward the end of the year and an increase in contract bookings in fiscal 2005, in this category, is expected. In response to customer demand, work was also initiated to develop and test a new methodology to guide business owners in the field of human resources management.

Consulting Revenues by Activity

for the year ended March 31, 2004

1	Growth	76%
2	Quality	21%
3	Exporting	1%
4	e-business	1%
5	Other	1%

Consulting Revenues by Type in Growth Segment

for the year ended March 31, 2004

1	SR&ED tax credit	28%
2	Operating efficiency	19%
3	Business planning	17%
4	Diagnostic	5%
5	Human resources	5%
6	Marketing	3%
7	Other	23%

There are persistent investment market gaps which inhibit the emergence of innovative firms in Canada. These gaps are identified as follows.

- Early-stage gap, whereby investments in early-stage companies are not the target of investors.
- Dollar gap, where per capita venture capital investments need to increase if Canada is to meet its objective of being a top three worldwide venture capital country.
- Institutional gap, as Canadian institutional investors are not nearly as active as their American counterparts.

BDC Venture Capital has been structured to fill these gaps by making investments using an internal organization aligned as follows.

- The Technology Seed Investment group
- Four internal specialized groups, designed to fill the early-stage gap
  - Life Sciences
  - Information Technologies
  - Telecommunications
  - Advanced technologies
- Fund-investing group, designed to support private venture capital fund managers and to increase institutional investing

The Canadian venture capital investment market has shrunk tremendously in the past three years. Despite this and in accordance with BDC's mandate, investment activity remained steady in fiscal 2004 as BDC continued its commitment to provide financing to companies seeking venture capital. Including $22 million in venture funds, total investments authorized in fiscal 2004 amounted to $109 million, up by $16 million or 17 percent over fiscal 2003.

BDC generally assumes a small ownership position (5% to 15%) and participation on the Board of Directors of its investee companies.

Venture Capital Activities

for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	**2004**
Direct investments authorized	63	84	98	93	**87**
Venture funds authorized	0	30	8	0	**22**
Total authorized	63	114	106	93	**109**
Total commitment as at March 31	195	296	374	430	**491**

BDC is focused on being an early-stage technology venture capital investor. During fiscal 2004, 77 percent of BDC's Venture Capital investments authorized were to companies in the seed, start-up or development stage.

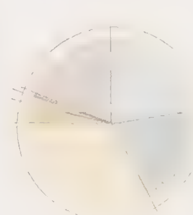
Number of Venture Capital Investments Authorized – Classification by Stage

for the year ended March 31, 2004

1	Start-up/Seed	60%
2	Development	17%
3	Expansion	14%
4	Turnaround	6%
5	Venture funds	3%

Venture Capital Commitment – Classification by Industry

as at March 31, 2004 ($ in millions)



Biotechnology/medical/health
2 Electronic
3 Communication and computer-related
4 Industrial
5 Energy
6 Other industries
7 Venture funds

EMPLOYEE COMMITMENT

Getting input from its employees on key issues that affect employee engagement is one of BDC's most valuable management information tools. In fiscal 2004, feedback was captured in four different ways: the yearly Employee Engagement Survey, focus groups on diversity, employee exit interviews and a cultural diagnostic geared at identifying current BDC core values.

In 2004, BDC initiated its second President's Leadership Forum. This forum brings together 10 leaders in an experimental leadership development program. This year, the objective will be to find ways to improve the effectiveness of BDC in supporting business growth in Canada and the leadership of its entrepreneurs. The President's Award of Excellence program also continued for a second year. It recognizes the dedication of employees who demonstrate excellence in their contribution to BDC's success.

Results from the annual Employee Engagement Survey show an improvement in employee commitment level to 77 percent from 76 percent in 2003. This result also surpasses the 76-percent performance objective set for fiscal 2004. Notwithstanding great uncertainty and workplace disruption experienced during the year, BDC employees remained strongly committed to BDC's raison d'être of making a difference in the Canadian entrepreneur market.

During fiscal 2004, BDC established a Diversity Committee, drawing on employees across the country. With the changing composition of Canadian society, BDC wants to ensure that its employees are aware of the incredible mosaic of races, cultures and religions that now make up Canada and the ways, as an institution, it can help these diverse groups thrive both as entrepreneurs and as BDC employees.

A cultural diagnostic was conducted with 400 BDC employees. The findings provided the basis for Management's key 2005 priority of reaffirming BDC's core values through a process of consultation with all employees and leaders. With this process, Management intends to reaffirm the five principal BDC core values and realign Human Resources practices accordingly.

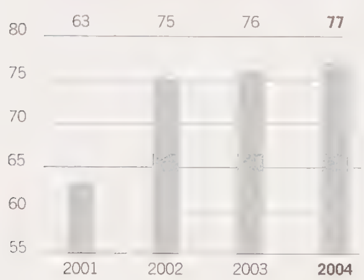
BDC entered the second year of the Career Management Process, which encourages self-assessment, learning and career development as a way to develop and retain talent. Employees take an active role in their career progression and professional development, while providing valuable information critical to the succession planning process.

BDC spent approximately $5 million in fiscal 2004 on training, about 2 percent of its total expenses, a figure that is consistent with previous years. Employee training is the key in allowing BDC to meet the challenges of today's rapidly changing business environment.

To add value to the marketplace, BDC must have the best players on its team. To retain its employees, BDC also needs to offer a stimulating and enriching work environment. BDC employees consistently rise to the challenges presented to them. In fiscal 2004, they made it possible for BDC to achieve a record year for loan authorizations of $2.1 billion, increase Consulting revenue by 10 percent, select great investment opportunities and help the commercialization of new technologies in Venture Capital operations.

Employee Commitment Level

for the years ended March 31 (percentage)



FINANCIAL STATEMENTS DISCUSSION

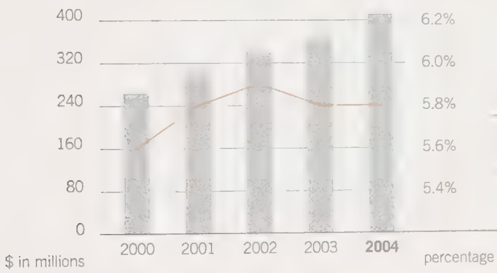
LOAN OPERATIONS

BDC's principal asset is the loan portfolio, which generates interest income and other income from administration fees. That income totalled $573.4 million in fiscal 2004 compared to $520.8 million in fiscal 2003, while interest earned on cash and short-term investments amounted to $27.2 million versus $24.7 million in fiscal 2003. The aggregate interest income is reduced by interest expense of $189.9 million (fiscal 2003: $176.6 million) on BDC's borrowings, yielding net interest and other income of $410.7 million in fiscal 2004 (before provision for credit losses), 11 percent higher than in fiscal 2003 and consistent with the larger loan portfolio.

The loan portfolio, net of the allowance for credit losses, increased from $6.3 billion as at March 31, 2003 to $7.0 billion as at March 31, 2004 including BDC's 50 percent share in the BDC-CDP partnership. Portfolio growth is the result of disbursements of new loans, less principal repayments and increased allowance for credit losses.

Loan Operations Net Interest and Other Income

for the years ended March 31



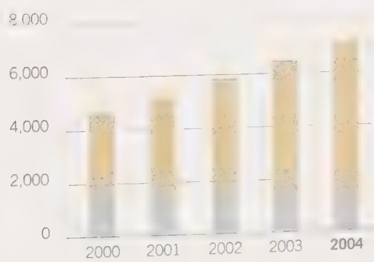
	2000	2001	2002	2003	2004
Net interest and other income (amount)	263	302	341	369	**411**
As a percentage of average portfolio (%)	5.6	5.8	5.9	5.8	**5.8**

Loans are granted to clients at either floating or fixed interest rates, at their option, with the fixed rates at the time of commitment reflecting prevailing market rates. The interest rates charged to individual clients reflect BDC's cost of funds, plus a risk factor. At March 31, 2004, $5.5 billion of the performing loans portfolio produced interest income at floating rates averaging 6.7 percent (March 2003: 7.5 percent), while the remaining $1.6 billion earned fixed interest with rates averaging 8.2 percent (March 2003: 8.7 percent). As in fiscal 2003, clients opted increasingly for the floating rate to benefit from the lower prevailing rates.

BDC finances the $7.5 billion in total loans outstanding primarily by borrowing on the open market, closely matching borrowing terms and maturities with its lending activities.

Performing Loan Portfolio

as at March 31 ($ in millions)



	2000	2001	2002	2003	2004
Fixed rate portfolio	1,931	1,857	1,949	1,658	**1,585**
Floating rate portfolio	2,737	3,283	3,854	4,783	**5,560**
Total performing portfolio	4,668	5,140	5,803	6,441	**7,145**

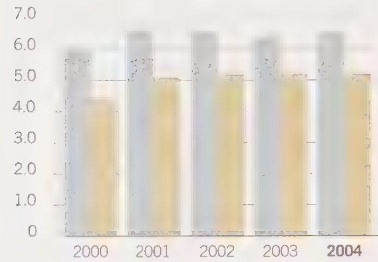
Net interest and other income must cover the provision for loan losses, and operating and administrative expenses, while generating enough net income to increase the capital base through retained earnings to support BDC's future lending activities.

Allowance and Provision for Loan Losses

BDC's mission of supporting Canadian entrepreneurs includes financing, start-up, early-stage development and growth businesses. Early-stage business financing involves a higher risk portfolio. [illegible] of this loan category is greater. Accordingly, BDC maintains its cumulative allowance for credit losses at a prudent level that also reflects its long-term loan loss experience of 6 to 7 percent. The allowance of $488 million as at March 31, 2004 was $55 million higher than it was as at March 31, 2003, and represented 6.5 percent of the portfolio versus 6.4 percent a year ago.

Allowance for Credit Losses

as at March 31 (percentage)



	2000	2001	2002	2003	2004
Total allowance as a % of total loan portfolio	6.0	6.6	6.6	6.4	**6.5**
General allowance as a % of performing loans portfolio	4.4	5.1	5.2	5.2	**5.2**

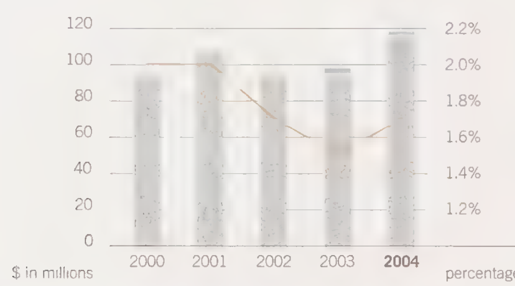
The cumulative allowance comprises a specific allowance of $115 million, which covers the net exposure from identified impaired loans and a general allowance of $373 million, which covers the exposure from the performing loans in the portfolio as at March 31, 2004. The general allowance represents 5.2 percent of the performing portfolio of $7.1 billion, in line with the ratio from a year ago.

Loan write-offs are charged to the specific allowance. During fiscal 2004, $65 million in loans was written off, compared to $74 million in 2003.

The total allowance, net of write-offs, is the cumulative result of annual provisions for credit losses charged to operating results. In fiscal 2004, provisions charged against income and credited to the allowance were $118 million, versus $98 million in fiscal 2003. The $118-million provision represents 1.7 percent of the average outstanding portfolio.

Provision for Credit Loss

for the years ended March 31



	2000	2001	2002	2003	2004
Provision for credit loss (amount)	94	106	95	98	**118**
As a percentage of average portfolio (%)	2.0	2.0	1.7	1.5	**1.7**

Operating and Administrative Expenses

Loan operating and administrative expenses of $200 million were $24 million higher than the $176 million recorded in fiscal 2003, driven by an $11-million increase in the cost of BDC's pension plans, increasing staff levels and ongoing investments in information technology. As in prior years, salaries and benefits represented over half of the operating and administration expenses.

BDC's pension expense for its defined benefit plans is determined actuarially and is significantly influenced by actuarially based assumptions such as the discount rate applied to future liabilities, the expected rate of return on fund assets, inflation rates and other factors. Current prevailing interest rates and investment returns have significantly affected costs for sponsors of all such plans, and BDC's Loans operations pension expense in fiscal 2004 was $6.1 million, compared to a pension credit of $5.2 million in fiscal 2003. BDC also maintains supplemental pension plans, which are non-funded, and the related accounting expense of $2.9 million was charged against earnings for fiscal 2004.

Loan Operations Pension Expense

for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	2004
Pension expense	(6.1)	(11.4)	(7.2)	(5.2)	**6.1**
Benefits to pensioners	4.8	4.8	5.1	5.7	**5.8**
Total employee future benefits expense	(1.3)	(6.6)	(2.1)	0.5	**11.9**

Total BDC Pension Expense

for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	2004
Pension expense	(7.1)	(12.5)	(7.8)	(5.8)	**7.0**
Benefits to pensioners	5.4	5.3	5.6	6.4	**6.4**
Total employee future benefits expense	(1.7)	(7.2)	(2.2)	0.6	**13.4**

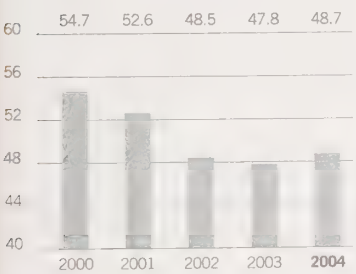
BDC's information and technology expenses (including salaries and benefits, equipment and other costs) amounted to $22 million, showing BDC's commitment to investing in and maintaining information technology hardware and software.

Premises and equipment costs for Loan operations of $27 million include leasing expenses for more than 80 BDC offices across Canada. This significant dollar figure reflects BDC's commitment to doing business throughout the country and BDC's decentralized decision-making process, closer to the client.

During fiscal 2004, BDC expanded its offices in St. John's, Moncton, Halton, Langley, Longueuil and Saint-Laurent. It also created temporary space in Québec City for the new Chaudière-Appalaches branch, which will move to a permanent site on the south shore of Québec City in fiscal 2005. These expansions will allow BDC to better serve its rapidly increasing client base. BDC plans to recruit additional employees to handle the expected increase in customer demand in future years.

Loan Operations Productivity Ratio

for the years ended March 31 (percentage)



Other expenses of $57 million comprise staff training, publicity, marketing and miscellaneous office expenses. Such costs are closely monitored. Despite an $11-million increase in pension costs, the productivity ratio stood at the excellent level of 49 percent. This important measure compares operat[illegible] productivity. At the same time, BDC maintained its client satisfaction rating at the 91-percent level in 2004, indicating concurrent high levels of employee productivity and client satisfaction.

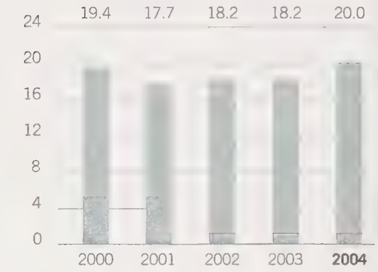
The BDC registered pension plan (RPP) was, at December 2003, fully funded and continued to report an actuarial *funding* surplus that exceeded regulatory levels. Employer and employee contributions have been suspended since 1994 and 1997 respectively due to the funding surplus, although it is possible that contributions will be reinstated in the future. During calendar year 2003, the RPP surplus for *accounting* purposes increased from $42 million to $43 million, as the fund assets produced a positive return during the year.

The supplemental pension plans are largely non-funded and the actuarial deficit for accounting purposes on those plans was $33 million at December 2003. The actuarial deficit on other post-employment benefit plans (mainly healthcare) was $85 million and the annual cost of these plans amounting to $8.7 million has been charged to salary and benefit expense.

The latest actuarial projections show that the cost of the RPP will decrease in Fiscal 2005 as the realized gains on the fund assets in this past year will reduce the effect of prior years' losses. The cost of benefit obligations to pensioners is expected to increase in fiscal 2005 due to higher healthcare costs and the effect of a lower interest rate used in actuarial projections of these obligations.

CONSULTING OPERATIONS

Consulting Revenue
for the years ended March 31 ($ in millions)



BDC changed the delivery of its consulting services in 2004 by integrating them with financial services. In addition to financing, loans managers review each client's needs to see whether the client can use any BDC Consulting products and will call upon Consulting managers to help in adding value to the client. Similarly, consulting managers are able to identify financing needs.

This change has led to a 10-percent increase in Consulting revenue from $18.2 million in fiscal 2003 to $20.0 million in fiscal 2004. Productivity increases resulted in a reduction of expenses keeping the operating loss at the $3.1-million level, despite a $0.9-million increase in pension costs. Excluding the pension cost increase, the profitability of Consulting operations increased by 30 percent.

In fiscal 2004, BDC had approximately 95 employees in the Consulting unit, with a national network of some 400 independent consultants who worked on more than 3,000 projects.

VENTURE CAPITAL

BDC Venture Capital has been in existence for over 20 years and has consistently ranked among the best venture capital investors in Canada.

Venture Capital's operating results for fiscal 2004 improved over fiscal 2003. Market conditions improved and there was a number of divestitures of successful investments, which resulted in net realized gains on investments of $12.7 million versus $3.7 million in 2003. Similarly, in 2004 the write-down on permanently impaired investments was $37 million, down from $50 million recorded in 2003, notwithstanding the higher portfolio. This created a loss from Venture Capital operations of $30.3 million, versus a loss of $59.5 million in fiscal 2003.

As the following graph demonstrates, Venture Capital results are subject to market volatility. In strong stock performance years, BDC has benefited from gains on its venture capital investments. However, in poor market years, BDC continued to provide venture capital financing in spite of reduced income. In fiscal 2000 and 2001, BDC recorded Venture Capital profits of $80 million and $56 million respectively, but the market conditions of the past three years have been unfavourable. BDC expects that in fiscal 2005, a recovery will push the Venture Capital results back towards a break-even point, if market conditions continue to improve during the year.

Venture Capital Operations
for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	**2004**
Net gains (losses) on investments	112.7	75.8	1.7	(1.9)	**14.9**
Other income	1.6	8.4	7.0	4.0	**2.7**
Write-down of investments	(14.7)	(13.3)	(18.9)	(50.0)	**(36.8)**
Venture capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	**(30.3)**

During fiscal 2004, Venture Capital activities continued at a rapid pace. BDC authorized 68 direct investments during the year for $87 million with $44 million or 50 percent being first-round investments. In addition, $22 million in venture funds was authorized in fiscal 2004, which increased the total investments authorized to $109 million, $16 million more than the previous year. These investments boosted the net investment portfolio to $346 million from $302 million in 2003, with fair market value at approximately $366 million. Such assets are carried at cost, less any write-downs for permanent impairment. The fair market value of BDC's investments will fluctuate in future years as a function of prevailing market conditions and the risk inherent in the portfolio.

Venture Capital – Total Investments Outstanding

as at March 31 ($ in millions)

	2000	2001	2002	2003	2004
Direct investments	123	178	237	265	**314**
Venture funds	22	28	34	37	**32**
Total investments	145	206	271	302	**346**

Valuation of Venture Capital – Total Investments

as at March 31 ($ in millions)

	2000	2001	2002	2003	2004
Carrying value	145	206	271	302	**346**
Fair market value	281	314	327	288	**366**
Commitment	195	296	374	430	**491**

BDC has also invested in specialized venture capital funds, with a commitment of $60 million, of which $20 million has been disbursed to date.

BDC Venture Capital uses the internal rate of return (IRR) standard to measure the performance of the investment portfolio. IRR is the rate at which the present value of the cash flows equals the cost of the original investment. Part of this measure is dependent on an estimate of the current fair market value of assets.

In fiscal 2004, the 10-year IRR on direct investments was 15.9 percent, compared to 19.2 percent in 2003, reflecting prevailing market conditions over the past few years. The overall portfolio's IRR, which includes the seed and specialized funds, decreased from 16.3 percent in fiscal 2003 to 13.1 percent in 2004, showing both our increased asset base and the slow return to health of the venture capital industry.

Venture Capital 10-year Internal Rate of Return

for the years ended March 31 (percentage)

	2000	2001	2002	2003	2004
Direct investments	24.8	26.9	26.1	19.2	**15.9**
Total investments	24.9	27.9	25.6	16.3	**13.1**

BALANCE SHEET

Total assets increased in fiscal 2004 from $7.8 billion to $8.8 billion, driven primarily by increases of $689 million and $44 million in the net loan and net investment portfolios respectively.

BDC operates within established liquidity parameters to ensure that sufficient funds are available to meet customer needs, while taking a balanced approach to money market requirements. Cash, short-term investments and securities at year-end amounted to $865 million, compared to $794 million at March 31, 2003.

The portfolios and liquidity assets totalling $8.2 billion comprise the principal assets of BDC and are funded by borrowings of $7.2 billion and shareholder's equity of $1.2 billion. Borrowings increased by $1.0 billion to fund the $0.7 billion growth in net portfolio, an increase in cash and securities of $71 million and the increase in unrealized gains and amounts receivable on derivatives of $201 million (shown in the Other assets note).

Total Outstanding Loans vs Borrowings

as at March 31 ($ in millions)

	2000	2001	2002	2003	**2004**
Borrowings	4,483	4,949	5,597	6,174	**7,181**
Loans	4,903	5,412	6,071	6,715	**7,465**

Fixed assets of $41 million comprise furniture, leasehold improvements and capitalized information technology investments, net of amortization.

Other assets of $580 million include unrealized gains and amounts receivable of $504 million on derivative financial instruments. They are offset by $102 million in unrealized losses and $101 million in accrued interest on borrowings.

Total shareholder's equity at year-end was $1,218 million, including an increase of $48 million in retained earnings net of dividends. This capital base will help BDC provide more support for the growing needs of small businesses. In fiscal 2003, BDC introduced a new common share dividend policy. The dividend is calculated based on a formula that takes into consideration BDC's financial performance. The dividend is applicable only to "new" common shares issued after fiscal 2002. For the eighth consecutive year, BDC declared a dividend payable to the Government of Canada. The total amount for fiscal 2004 was $10.7 million – $0.4 million on common shares based on fiscal 2003 performance, and $10.3 million on preferred shares – resulting in a cumulative total dividend of $77.7 million since fiscal 1997.

In addition, based on BDC's fiscal 2004 performance, common dividends of $3.3 million will be declared and paid in fiscal 2005.

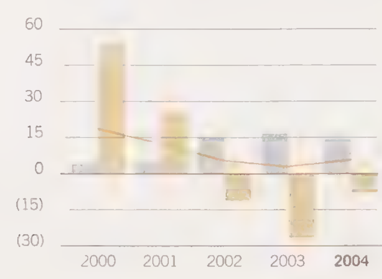
For the year ended March 31, 2004, BDC operated within all statutory limits stipulated in the *Business Development Bank of Canada Act*. At year-end, the debt-to-equity ratio was 5.9:1, comfortably better than the statutory limit of 12:1.

Return on Common Equity

The return on common equity in fiscal 2004 increased almost twofold to 5.1 percent, from the 2.7 percent in 2003, as a result of strong Loans operations and the slight improvement in Venture Capital operations. The return on equity for Loans and Consulting operations, calculated on a stand-alone basis, was 14.1 percent for fiscal 2004 compared to 16.5 percent for 2003.

Return on Common Equity

for the years ended March 31 (percentage)



	2000	2001	2002	2003	**2004**
Loans and Consulting	3.7	5.5	15.1	16.5	**14.1**
Venture Capital	54.1	25.2	(11.6)	(27.0)	**(8.1)**
Total Bank	18.7	12.6	5.7	2.7	**5.1**

CORPORATE PLAN DISCUSSION

Loans Operations: Comparison with 2004 Plan

Loan authorizations of $2.083 billion were essentially on Plan. Following high levels of authorizations in the last few years, the portfolio stood at $7.5 billion, also on Plan. BDC achieved Plan levels despite the negative market influences from SARS, Hurricane Juan, BSE and the forest fires in Western Canada. BDC met its operational objectives primarily as a result of the continued strong showing in Quebec, where loan authorizations increased by 20 percent in 2004.

Loan loss provisions of $118 million were slightly better than Plan, reflecting the good credit performance of the portfolio in 2004. Consequently, the net margin generated by the loan portfolio in 2004 was on Plan. BDC continued to take a prudent approach to loss provisioning, and maintained the general allowance at the same ratio as contemplated in the Corporate Plan, while the specific allowance driven by impaired loans increased slightly.

Operating and administrative expenses were tightly controlled. At $200 million, they were in line with Plan, reflecting steady employee productivity, sound internal controls and effective budgetary processes.

With all of the above factors performing well, the net income from Loans operations was $93 million for the year, better than the Plan level of $90 million.

2005 Corporate Plan Outlook

BDC expects continued growth in 2005, in both portfolio size and profitability – loan authorizations of $2.3 billion are targeted to increase the portfolio to $8.4 billion, while increasing risk is expected to require loss provisions of $140 million, compared to $118 million in fiscal 2004. BDC foresees the need for additional staff to handle the extra business and expects operating expenses to increase to $210 million. Barring any major changes to the Canadian economy, we see profit increasing to $105 million in 2005.

Venture Capital: Comparison with 2004 Corporate Plan

Fiscal 2004 saw a return to growth in public market performance, which in turn strengthened divestitures during the year – investment income of $18 million was $12 million more than Plan. This increase was offset by write-downs of $37 million, which were $11 million more than Plan. Investment activity continued at a steady pace during the year. BDC authorized $109 million in total investments which was below the Plan level of $122 million. This unfavourable $13-million variance in authorizations was due mainly to a lower than anticipated level of direct investments. Operating expenses of $11 million were $3 million lower than Plan, and the net loss of $30 million was $4 million better than Plan.

2005 Corporate Plan Outlook

The Plan projects that market conditions will continue to improve and that Venture Capital's financial performance will gradually improve in fiscal 2005, with $102 million in direct authorizations, $30 million in revenues, $20 million in potential write-downs and a net loss of $5 million. Venture Capital portfolio is expected to grow to the $440-million range, by the end of fiscal 2005.

In the March 2004 budget, the Government of Canada announced its intention to invest $250 million of common equity in BDC. These monies have been earmarked in the following manner.

- $100 million in pre-seed and seed investments to nurture embryonic technologies
- $50 million to invest directly in innovative start-up and early-stage companies to further support the commercialization of enabling technologies
- $100 million to support the creation of specialized venture capital funds, to leverage additional private equity investment in leading-edge technologies.

Over the next several years, these investments will help BDC to fill gaps in the Canadian venture capital marketplace.

The typical cycle of venture capital investment is five to seven years so the returns from these investments will likely not be seen immediately.

INTEGRATED RISK MANAGEMENT

Overview

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistently with its mandate. BDC has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. For example, last fall Management and the Board approved a market strategy called Pricing for Risk, geared towards pricing risk appropriately while growing BDC's portfolio in target markets. The analysis leading and supporting the formulation of this strategy was conducted in the context of an overview of all BDC's risks and a strategic planning meeting prior to preparing the 2005-2009 Corporate Plan.

RISK MANAGEMENT STRUCTURE AND RESPONSIBILITIES

Board of Directors

- Approve risk policies, risk appetite and strategies.
- Ensure risk management and control framework is effective.
- Review portfolio and major risks and management plans.
- Review capital adequacy.

Senior Management Team

- Establish risk and control framework.
- Identify, assess, mitigate, measure and report risk.
- Identify major risks and implement appropriate action plans.
- Recommend risk management policies and strategies.
- Identify risk owners and responsibilities and allocate resources.

Asset and Liability Committee

Oversee Treasury funding activities and compliance with risk policies including matching of assets and liabilities.

Credit Committee

Review and approve large loan transactions or recommend them to BDC's Credit and Investment Committee.

Strategic Business Council

- Define target markets and gaps.
- Integrate management of projects affecting credit risk management and operations.

Portfolio Outlook

Review loan portfolio concentrations, risk migration and quality and recommend actions.

Governance: The Board recently reviewed its governance practices, which were determined to be in accordance with best practices.

The Senior Management Team is responsible for all risks. Each year, identification of business risks is re-assessed through the Business Functional Unit Plan. Each unit is responsible for identifying the risks associated with achieving its objectives and running the business. These risks are then compiled into a Corporate Integrated Risk Management Plan and Management identifies the top 10 risks for BDC. The Board reviews these risks along with the action plan.

In addition, the Board receives regular risk reports from Management about BDC's exposure to emerging risks. The Integrated Risk and Portfolio Management Group, which reports directly to the Executive Vice President, Integrated Risk and Technology Management, coordinates these activities. It also manages the loan portfolio and determines BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

Asset and Liability Committee: The Asset and Liability Committee, which includes senior officers of BDC's risk management function, periodically reviews the policies governing credit, market and liquidity risks related to BDC's operations. The Committee's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard BDC's capital. These policies comply with the Department of Finance's financial risk management guidelines and industry best practices.

Portfolio Outlook: On a quarterly basis, Management holds a Portfolio Outlook meeting to oversee loan portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board.

Strategic Business Council: BDC's Strategic Business Council regularly reviews the relationship between business solutions, risk appetite and credit risk assessment tools. These elements are enhanced or revised as required to more flexibly meet the needs of clients and BDC's risk objectives. Therefore, the Council performs a loan portfolio risk integration role.

Audit and Inspection: BDC's Audit and Inspection team reviews branches and their loan portfolios for credit risk and compliance with policies and procedures in support of BDC objectives. Seventy percent of branches reviewed achieved the highest rating.

Capital Management: As a complementary lender, BDC is facing and purposely targeting higher levels of credit risk than the majority of private sector financial institutions. As such, sufficient earnings are required not only to compensate for this risk and maintain an adequate level of capital to cover expected and unexpected losses, but also to increase capital to enable BDC to grow its portfolio by providing additional financing to entrepreneurs. BDC's underlying capital management philosophy is to maximize the shareholder's objective to support active and healthy businesses while ensuring self-sufficiency in terms of financial strength to cover all phases of an economic cycle.

BDC has developed an economic capital model based on its own experience and industry best practices for measuring and monitoring capital adequacy. The model is used to measure the capital required to support expected and unexpected losses in credit risk, as well as market and operational risks. Capital adequacy is managed to ensure compliance with the 12:1 debt-to-equity ratio required by the *Business Development Bank of Canada Act*. Capital requirements for future growth are reviewed in the context of growth and risk tolerance objectives with Management, the Board and the shareholder annually when preparing the Corporate Plan.

BDC also operates within certain ratios between debt and equity according to various categories of financing, to determine the adequacy of its capital base.

Commercial Lending	10:1
Subordinate Financing	4:1
Venture Capital	1:1

CREDIT RISK

Loan Portfolio Risk Management

Loan Credit Risk: *Loan credit risk is the risk of financial loss that arises from the possibility of default on a loan.*

BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus, credit decisions are based on the application of BDC's credit experience with like customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework which is closely linked to a risk-pricing tool. The risk rating provides the basis for underwriting and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and are subject to independent review and audit. All BDC's account managers and other managers across Canada are trained to assess overall credit risk.

Environmental Risk: *Environmental risk is a financial loss resulting from a loan with an environmental hazard that was unforeseen or improperly managed.*

BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

Loan Portfolio Management

A portfolio management system provides BDC with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are broken down by industry, geographic sector, business solution, loan size or any combination thereof. Exception reports enable Management to focus attention on corrective action as required. This system is cutting-edge in terms of risk management best practices, which allows BDC to take on risk in line with its mission.

Portfolio Strategies

The Strategic Business Council analyzes data and recommends portfolio strategies. Comprised of representatives from different areas of BDC, including field operations, marketing, portfolio risk management and credit risk management, each member ensures a balanced and integrated view of both market and risk strategies. As such, the Council supports the Senior Management Team and the Board in defining market gaps and implementing portfolio and market strategies.

Loan Impairment

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Despite significant increases in loan volumes, impaired loans amounted to $320 million at March 2004, compared to $280 million a year ago. The specific allowance for credit losses of $115 million is considered to be sufficient to cover the net loss exposure of these loans.

A general allowance of $373 million, representing 5.2 percent of the performing portfolio as at March 31, 2004, has been established. Based on its credit loss history over the past 20 years, BDC considers this allowance to be sufficient to cover the losses on the portfolio of performing loans of $7.1 billion.

Loan Portfolio Concentration Risk: *Concentration risk is the risk of several loans or borrowers in the same segment defaulting at the same time.*

Within the domestic Canadian economy, BDC's loan portfolio is well diversified – geographically, by industry sector and by stage of development.

Treasury Credit Risk

Liquidity Investments: *Liquidity investment risk is the risk incurred when the quality of the issuing institution deteriorates during the transaction period, resulting in a loss for BDC.*

BDC's Treasury Department's primary responsibility with liquidity management is to ensure that BDC has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment management policy. The application of the policy is monitored daily by the Integrated Risk and Portfolio Management team. As such, limits are set on the funding and investment profile of the liquidity portfolio and minimum/maximum liquidity levels are calculated based on projected net cash outflows, thereby covering payment and commitment risks. BDC's policy provides clear guidelines for issuing institutions, all of which are rated above A-. As at March 31, 2004, 89 percent of BDC's liquidity investments were to mature within three months.

Risk Exposure in Cash, Short-Term Investments and Securities

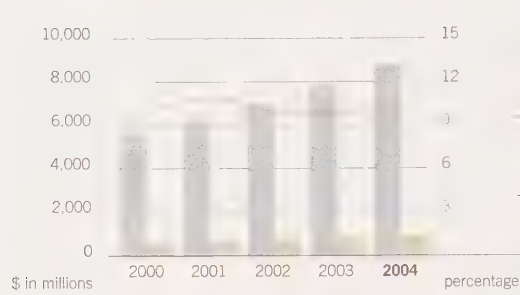
as at March 31, 2004 ($ in millions)

	Term to maturity		
Credit rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	123.8	0.0	0.0
AA- to AA+	342.0	9.9	82.1
A to A+	307.6	0.0	0.0
Total	773.4	9.9	82.1

* From major credit agencies

Liquidity Ratio

as at March 31



	2000	2001	2002	2003	**2004**
Total assets (amount)	5,666	6,226	6,897	7,791	**8,809**
Cash, short-term investments and securities (amount)	578	674	715	794	**865**
Liquidity ratio	10%	11%	10%	10%	**10%**

Derivative Instruments: *Issuer/counterparty risk is the risk of the non-performance of a counterparty and the possible default of a treasury asset or risk transfer transaction, such as a derivative instrument.*

BDC has established credit limits under its counterparty credit risk policy to monitor and manage the credit risk of derivatives. Counterparty credit risk exposure arises when such instruments have positive market value. BDC has entered into International Swaps and Derivatives Association (ISDA) agreements with counterparties to derivative transactions in accordance with industry practice. During the year, ISDA agreements have been renewed to include a credit support document which defines a collateral threshold amount required to protect BDC against risks such as a potential downgrading associated with a counterparty. It is also intended to limit credit risk exposure related to increases in market value of derivative products beyond a certain tolerance threshold.

Counterparty Credit Risk Exposure

as at March 31, 2004 ($ in millions)

	Term to maturity			
	Gross exposure			
Credit rating*	Less than 1 year	1 to 3 years	3 years and over	Net exposure**
AAA	0.0	0.0	0.4	0.4
AA- to AA+	1.7	17.6	247.3	51.2
A to A+	7.7	38.2	100.2	59.9
Total	9.4	55.8	347.9	111.5

* From major credit agencies
** After the impact of master netting agreements and collateral held by BDC.

MARKET RISK

Market risk is the risk that the value of assets, liabilities or other financial instruments will vary because of changes in market prices, resulting in losses for BDC.

Market risk includes exposure to interest rates, foreign exchange, liquidity and equity prices.

BDC funds its financing activities by issuing money market instruments (commercial paper) and capital market long-term notes. BDC monitors and manages the market risk exposures associated with these borrowing activities. Market risk factors, such as foreign exchange, equity or commodity prices, or other possible risk factors arising from funding activities are hedged by BDC at the transaction level. Movements in Canadian interest rates comprise the residual market risk exposure.

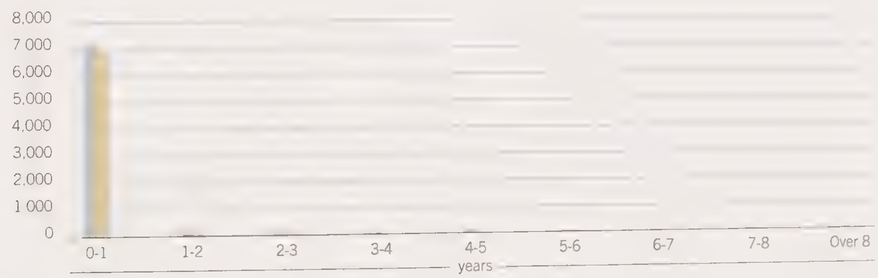
Interest Rate Risk: *Interest rate risk is the risk that market rate fluctuations lead to loss in value of financial instruments.*

Interest rate risk occurs when the terms of BDC's borrowings are not matched with the terms of its loans. BDC uses borrowing strategies and derivative instruments to minimize these differences.

The following graph shows the matching of BDC's lending assets with the borrowings that fund them as at March 31, 2004, accounting for the effect of derivative instruments.

Interest Rate Sensitivity Asset and Liability Gap

as at March 31, 2004 ($ in millions)



	0-1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	Over 8
Assets	7,221	373	285	172	154	41	26	21	30
Liabilities	6,888	90	90	–	–	50	–	–	–

The Treasury Market Risk Management Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income stability and BDC's economic value. As such, the policy sets the following controls and limits to ensure the appropriate matching of BDC's loan portfolio with equity and required debts.

- Sensitivity of economic value of equity by measurement of duration and value-at-risk (VAR). For this purpose, BDC uses a 99-percent confidence interval and a one-year moving historical database.
- Extreme test related to the variability of projected net interest income for the next 12 months, under a 2-percent interest rate variance scenario.

Foreign Exchange Risk: *Market fluctuations in foreign currencies when compared to local currency produce a loss in value.*

Loan assets are maintained in Canadian dollars, while borrowing liabilities originated in foreign currency are converted at the transaction level to Canadian dollars through the use of currency swaps and currency forward contracts.

Venture Capital Investments: By definition, venture capital investments are high risk. The return on the investment portfolio depends on the divestitures of successful investments. Successful investments are realizable privately or through transactions on public financial markets that depend on equity prices. BDC mitigates such risks through conservative valuation, syndication of investments and regular monitoring and divests its holdings on a phased basis, taking into account market conditions and applicable restrictions on such transactions.

OPERATIONAL RISK

Operational risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

BDC has well-defined internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures governs information processing, Loan operations, human resources management and other key operational functions. BDC's review of its top 10 risks includes action plans intended to address operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster. It successfully tested this process during the year and continues to review and improve its contingency planning.

BDC manages the risks associated with technology and telecommunication failures through programs for replacement of computer systems and equipment. Security and control procedures are in place to respect privacy standards and to ensure that information is managed accurately and efficiently.

Written-off accounts are reviewed and the operational risks associated with loan operations are identified. From a compilation of these risks, BDC has pinpointed the risks that occur most often and established a training program, one of the aims of which is to eliminate the main behaviours underlying these operational losses.

Management's Responsibility for Financial Information

The financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, Management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

André Bourdeau
Acting President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 18, 2004

Auditors' Report

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2004 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montreal, Canada
May 18, 2004

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 18, 2004

Financial Statements

BALANCE SHEET

as at March 31 *($ in thousands)*

	2004	2003
ASSETS		
Cash and short-term investments (Note 3)	$ 773,365	$ 730,717
Securities (Note 4)	92,084	63,259
	865,449	793,976
Loans, net of allowance for credit losses (Notes 5 and 6)	6,977,544	6,288,636
Venture capital investments (Note 7)	345,624	301,945
	7,323,168	6,590,581
Fixed assets, net of accumulated amortization	40,669	33,712
Other assets (Note 8)	579,932	373,090
	620,601	406,802
TOTAL ASSETS	$ 8,809,218	$ 7,791,359
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	$ 58,297	$ 56,555
Accrued interest on borrowings	121,329	89,151
	179,626	145,706
Borrowings (Note 9)		
Short-term notes	3,383,398	3,265,368
Long-term notes	3,797,704	2,908,520
	7,181,102	6,173,888
Other liabilities (Note 10)	230,031	301,748
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	788,400	788,400
Contributed surplus	27,778	27,778
Retained earnings	402,281	353,839
	1,218,459	1,170,017
Guarantees, contingent liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 8,809,218	$ 7,791,359

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve, CA
Director
Chairperson Audit Committee

André Bourdeau
Director
Acting President and Chief Executive Officer

STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended March 31 *($ in thousands)*

	2004	2003
LOANS		
Interest income		
Interest on loans	$ 540,859	$ 490,027
Short-term investments and securities	27,194	24,747
	568,053	514,774
Interest expense	189,911	176,618
Net interest income	378,142	338,156
Provision for credit losses (Note 6)	118,000	98,000
Net interest income after provision for credit losses	260,142	240,156
Other income	32,534	30,800
Income before operating and administrative expenses	292,676	270,956
Operating and administrative expenses (Note 12)	200,121	176,449
Income from Loans	92,555	94,507
CONSULTING		
Revenue	20,006	18,221
Operating and administrative expenses (Note 12)	23,141	21,363
Loss from Consulting	(3,135)	(3,142)
VENTURE CAPITAL		
Interest and dividends	1,410	1,782
Net realized gains on investments	12,749	3,752
Unrealized gains (losses) on temporary investments	2,196	(5,606)
Other	1,242	2,237
Investment income	17,597	2,165
Write-down of investments	36,770	50,041
Net investment loss	(19,173)	(47,876)
Operating and administrative expenses (Note 12)	11,126	11,609
Loss from Venture Capital	(30,299)	(59,485)
NET INCOME	59,121	31,880
RETAINED EARNINGS		
Beginning of year	353,839	334,142
Dividends on common shares	(397)	–
Dividends on preferred shares	(10,282)	(12,183)
END OF YEAR	$ 402,281	$ 353,839

The accompanying Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the years ended March 31 *($ in thousands)*

	2004	2003
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$ 59,121	$ 31,880
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(12,749)	(3,752)
Unrealized losses (gains) on venture capital temporary investments	(2,196)	5,606
Provision for credit losses and write-down of venture capital investments	155,471	148,660
Amortization of fixed assets	9,004	8,977
Changes in operating assets and liabilities:		
Change in interest receivable on loans	(513)	(1,201)
Change in accrued interest on borrowings	(11,633)	(21,225)
Translation adjustment on borrowings and securities	122,646	(54,520)
Net change in unrealized gains and amounts receivable on derivative financial instruments	(200,996)	(149,282)
Net change in unrealized losses and amounts payable on derivative financial instruments	(33,121)	123,672
Net change in other assets and other liabilities	1,518	(1,315)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	86,552	87,500
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net change in securities	(32,791)	15,342
Net change in securities purchased under resale agreements	(22,516)	89,823
Disbursements for loans	(2,074,051)	(2,141,799)
Disbursements for venture capital investments	(91,171)	(102,254)
Repayments of loans	1,267,656	1,425,877
Proceeds on sales of venture capital investments	25,667	19,478
Net acquisition of fixed assets	(15,961)	(13,777)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(943,167)	(707,310)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	1,716,473	1,472,654
Repayment of long-term notes	(883,182)	(729,965)
Net change in short-term notes	55,243	(107,270)
Proceeds from issue of common shares	–	190,000
Dividends paid on common and preferred shares	(11,787)	(17,510)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	876,747	807,909
Net increase in cash and cash equivalents	20,132	188,099
Cash and cash equivalents at beginning of year	655,740	467,641
Cash and cash equivalents at end of year (note 3)	$ 675,872	$ 655,740
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	$ 201,544	$ 197,843

The accompanying Notes to Financial Statements are an integral part of this statement

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgments. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Joint venture investments in loan portfolios are recorded using the proportionate consolidation method whereby the Bank's prorata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined with similar items in the financial statements.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Venture capital investments

Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in specialized funds and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used as hedges of interest rate risk resulting from the repricing of assets and liabilities. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. These derivatives are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in other assets and in accrued interest on borrowings.

Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. Unrealized foreign exchange and equity translation gains and losses on these derivative financial instruments are respectively accrued in other assets and liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Annual valuations are performed by independent actuaries to determine the present value of accrued pension benefit obligation using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments. The Bank also maintains non-funded [illegible] pension plans and other benefits for eligible employees.

Components of the change in the Bank's benefit obligations from year to year and the calculation of the benefit expense are as follows:

Current service cost represents benefits earned in the current year. These are determined with reference to the current employees and to the amount of benefits they will be entitled to upon retirement, based on the provisions of the Bank's benefit plans.

Interest cost on benefit obligation represents the increase in the pension obligations that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year the Bank's actuaries recalculate the benefit obligations and compare them to those estimated as at the prior year end. The differences that arise from changes in assumptions or from plan experience being different from what was expected by management at the prior year-end are considered actuarial gains or losses. Secondly, actuarial gains or losses are created when there are

March 31, 2004 ($ in thousands except as otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

differences between expected and actual returns on plan assets. At the beginning of each fiscal year, the Bank determines whether the cumulative actuarial loss (gain) is more than 10% of the greater of the pension plans asset or benefit obligation balances. Any amount that exceeds this 10% corridor is amortized to expense over the remaining service period of the Bank's active employees. Amounts that fall within the 10% corridor are not amortized.

Expected return on plan assets represents management's best estimate of the long-term rate of return on assets applied to the fair value of plan assets. Differences between expected and actual returns on plan assets are included in the actuarial gains and losses described above.

Amortization of transitional assets relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, the Bank had a transitional asset that is being amortized to income on a straight line basis over the active remaining service life of the Bank's active employees that ranged from 8.5 years for the Registered Plan to 13 years for the other plans.

Pension and Other Employee Future Benefit Assets

Assets are set aside to satisfy the Bank's pension obligation related to the BDC's registered pension plan. Retirement benefits for the other supplemental plans are paid out of operations. The Other plans, which include the Employee Future Benefit Liability, are unfunded.

Future accounting changes

Hedging Relationships

The CICA issued Accounting Guideline 13, Hedging Relationships, which will become effective for the Bank on April 1, 2004. This guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent and formalized than those under current standards. Commencing April 1, 2004, all derivative financial instruments that do not qualify for hedge accounting will be carried at fair value in the balance sheet, and changes in their fair value will be recorded in the statement of income. The Bank has reassessed its hedging relationships and has identified a limited number of hedging relationships that do not meet the criteria established in the guideline for hedge accounting. The effect of applying the transitional provisions established in the guideline is not significant to the Bank's financial position as at April 1, 2004.

Venture capital investments

The CICA has amended certain accounting standards that, in fiscal 2005, will require equity accounting for any investments directly held in the venture capital portfolio that are considered subject to significant influence by the Bank. Currently, any such investments would be accounted for on a cost basis. The impact of adopting this new standard on the 2005 financial statements of the Bank has not yet been determined.

3. CASH AND SHORT-TERM INVESTMENTS

	2004	2003
Bank account balances, net of cheques outstanding	**$ (13,157)**	$ (5,187)
Short-term bank notes	**689,029**	660,927
Cash and cash equivalents	**675,872**	655,740
Securities purchased under resale agreements	**97,493**	74,977
	$ 773,365	$ 730,717

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

4. SECURITIES

	Term to maturity			**2004**	2003
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial Institutions					
Carrying value	$ 9,943	$ 15,207	$ 66,934	**$ 92,084**	$ 63,259
Yield	6.70%	4.47%	1.22%	**2.31%**	3.23%
Fair value	$ 10,152	$ 15,603	$ 67,079	**$ 92,834**	$ 63,878
Swap Contracts					
Notional amount	$ 10,000	$ 15,000	$ 70,500	**$ 95,500**	$ 62,600
Adjusted yield [1]	2.47%	2.52%	2.43%	**2.45%**	3.13%
Amounts denominated in foreign currencies included in the carrying value of securities					
		US dollars - 2003	$ 20,720		$ 30,388
		US dollars - 2004	$ 51,050	**$ 66,934**	

[1] After adjusting for the effect of related derivatives (see Note 14).

March 31, 2004 ($ in thousands except as otherwise indicated)

4. SECURITIES (continued)

All securities held as at March 31 were issued by Canadian entities at fixed & floating rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2004		2003	
Performing - floating	**$ 5,560,591**	**6.67%**	$ 4,783,194	7.45%
Performing - fixed				
Under one year	**462,250**	**7.50%**	535,817	8.06%
1 to 2 years	**299,372**	**8.41%**	246,150	8.60%
2 to 3 years	**236,969**	**8.49%**	253,176	9.12%
3 to 4 years	**171,783**	**8.94%**	174,654	9.11%
4 to 5 years	**218,395**	**8.35%**	148,687	9.48%
Over 5 years	**196,162**	**8.73%**	299,437	8.78%
Performing	**7,145,522**		6,441,115	
Impaired	**319,672**		280,260	
Total loans	**7,465,194**		6,721,375	
Allowance for credit losses				
General	**(372,458)**		(335,427)	
Specific	**(115,192)**		(97,312)	
	(487,650)		(432,739)	
Loans, net of allowance for credit losses	**$ 6,977,544**		$ 6,288,636	

The average amount of loans, net of allowance for credit losses, was of $6,649,149 in 2004 ($5,959,328 in 2003).

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	2004		2003	
Newfoundland and Labrador	**$ 300,660**	**4.0%**	$ 251,633	3.8%
Prince Edward Island	**45,625**	**0.6%**	42,965	0.6%
Nova Scotia	**165,849**	**2.2%**	149,980	2.2%
New Brunswick	**265,975**	**3.6%**	255,802	3.8%
Quebec	**3,018,833**	**40.4%**	2,662,816	39.6%
Ontario	**2,386,339**	**32.0%**	2,143,169	31.9%
Manitoba	**113,759**	**1.5%**	92,803	1.4%
Saskatchewan	**102,284**	**1.4%**	107,667	1.6%
Alberta	**430,786**	**5.8%**	402,233	6.0%
British Columbia	**583,122**	**7.8%**	563,670	8.4%
Yukon	**20,770**	**0.3%**	20,416	0.3%
Northwest Territories and Nunavut	**31,192**	**0.4%**	28,221	0.4%
Total loans outstanding	**$ 7,465,194**	**100.0%**	$ 6,721,375	100.0%

March 31, 2004 ($ in thousands except as otherwise indicated)

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2004	2003
Balance at beginning of year	$ 432,739	$ 408,513
Write-offs	(64,756)	(73,841)
Interest income due to accretion	(3,877)	(3,671)
Recoveries	5,544	3,738
	369,650	334,739
Provision for credit losses	118,000	98,000
Balance at end of year	$ 487,650	$ 432,739

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.4% of total venture capital investments.

	2004		2003	
Industry Sector	**Carrying value**	**Fair value**	Carrying value	Fair value
Biotechnology/Medical/Health	$ 91,640	$ 120,595	$ 77,601	$ 71,446
Information Technology	52,032	57,096	50,889	53,782
Seed Funds	12,440	12,440	20,718	17,459
Specialized Funds	19,572	19,626	15,929	16,281
Electronics	76,185	67,630	63,736	59,039
Communications	79,228	72,223	57,023	50,745
Energy	3,975	3,975	6,200	6,200
Industrial	6,715	6,819	4,400	4,806
Consumer-related	2,537	2,537	2,538	2,538
Other	1,300	3,030	2,911	5,295
Venture capital investments	$ 345,624	$ 365,971	$ 301,945	$ 287,591

(See Note 13 for determination of fair value)

The preceding table includes $10,458 ($8,030 in 2003) of temporary investments, with a fair value of $10,458 ($8,200 in 2003). The average carrying value of venture capital investments was $321,818 in 2004 ($292,415 in 2003).

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	**2004**	2003
Common shares	$ 122,456	$ 119,738
Preferred shares	178,398	151,663
Debentures	44,770	30,544
Venture capital investments	$ 345,624	$ 301,945

March 31, 2004 ($ in thousands except as otherwise indicated)

7. VENTURE CAPITAL INVESTMENTS (continued)

The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2004	2003
Current assets	$ 2,045	$ 2,331
Venture Capital investments	9,375	17,227
Other assets	7	9
Current liabilities	10	10
Investment income	638	1,556
Write-down on investments	8,170	3,233
Operating and administrative expenses	577	1,145
Loss from venture capital	$ (8,109)	$ (2,822)
Cash flows from (used in):		
Operating activities	$ (345)	$ (1,023)
Investing activities	209	2,565
Financing activities	(30)	(3,150)

8. OTHER ASSETS

	2004	2003
Unrealized gains and amounts receivable on derivative financial instruments	$ 503,561	$ 302,565
Accrued benefit asset	60,831	62,606
Unamortized debt issue expenses on long-term notes	1,291	1,462
Other	14,249	6,457
	$ 579,932	$ 373,090

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. BORROWINGS

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

			2004		2003	
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2004		USD			$ 800,907	$ 1,160,611
		CDN			2,115,249	2,104,757
2005	1.98%-3.16%	USD	$ 435,430	$ 566,884		
		CDN	2,825,448	2,816,514		
Total short-term notes				$ 3,383,398		$ 3,265,368

March 31, 2004 ($ in thousands except as otherwise indicated)

9. BORROWINGS (continued)

			2004		2003	
Maturity date	**Effective rate***	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes						
2004		USD	$ –	**$ –**	12,500	$ 33,211
		CDN	–	–	347,500	347,500
2005	2.21%	USD	3,000	**7,123**	–	–
	1.92%-5.15%	CDN	216,025	**216,025**	181,000	181,000
2006	1.80%-4.53%	CDN	234,340	**237,853**	241,665	242,466
2007		EURO	–	–	4,587	7,233
	1.75%-3.52%	CDN	262,271	**268,652**	268,760	275,443
2008		USD	–	–	5,000	7,336
	1.93%-2.12%	CDN	265,600	**265,600**	265,600	265,600
2009	1.85%	USD	43,000	**56,379**	50,000	73,361
	1.75%-2.02%	CDN	256,032	**263,919**	268,032	272,890
2010	2.01%	USD	15,000	**19,667**	25,000	36,680
	1.75%-1.96%	CDN	186,461	**202,590**	186,461	195,683
2011	1.96%	YEN	800,000	**10,050**	–	–
	1.96%	USD	10,000	**13,321**	10,000	14,075
	1.76%-1.96%	CDN	472,790	**489,249**	213,610	211,190
2012	1.75%-1.81%	CDN	341,090	**346,743**	–	–
2013		YEN	–	–	2,000,000	24,735
	1.94%-2.04%	USD	36,000	**47,201**	71,000	104,171
	1.93%	CDN	5,000	**5,000**	5,000	5,000
2014	1.93%-2.02%	YEN	12,000,000	**150,759**	–	–
	1.90%-2.03%	USD	183,800	**240,201**	–	–
2015	1.97%	YEN	1,000,000	**12,563**	8,600,000	106,359
2016	1.93%-2.02%	YEN	2,500,000	**31,408**	–	–
2018	1.95%-2.08%	YEN	27,300,000	**342,973**	40,800,000	504,587
2019	1.91%-2.06%	YEN	38,800,000	**488,706**	–	–
	1.96%-2.02%	USD	62,329	**81,722**	–	–
Total long-term notes				**$ 3,797,704**		$ 2,908,520

*The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 14.

The preceding table includes $3,672,679 in 2004 and $2,493,520 in 2003 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the previous table are as follows:

	2004	2003
Interest-bearing notes	**$ 369,985**	$ 500,000
Fixed and inverse floating rate notes	**929,886**	477,188
Managed futures	**1,110,170**	594,767
Notes linked to equity indices	**801,257**	808,575
Notes linked to currency rates	**216,086**	177,903
Notes linked to swap rates	**47,740**	13,604
Notes extendible beyond maturity	**10,000**	10,000
Other structured notes	**312,580**	326,483
	$ 3,797,704	$ 2,908,520

Long term notes of $1,376,751 may be called prior to maturity (in 2003: $807,911).

March 31, 2004 ($ in thousands except as otherwise indicated)

9. BORROWINGS (continued)

As at March 31, 2004, the payment requirements and maturities of long-term notes are as follows:

2005	$ 223,148
2006	237,853
2007	268,652
2008	265,600
2009	320,298
2010 and later	2,482,153
	$ 3,797,704

10. OTHER LIABILITIES

	2004	2003
Deferred income	$ 482	$ 590
Accrued benefit liability	103,732	96,905
Unrealized losses and amounts payable on derivative financial instruments	101,740	178,671
Other	24,077	25,582
	$ 230,031	$ 301,748

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	2004			2003		
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A - Series 1	500,000	$ 50,000	4.585%	500,000	$ 50,000	4.585%
- Series 2	500,000	50,000	4.365%	500,000	50,000	6.545%
- Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
- Series 4	400,000	40,000	3.610%	400,000	40,000	3.760%
- Series 5	400,000	40,000	2.820%	400,000	40,000	3.910%
		230,000			230,000	
Common shares	5,584,000	558,400		5,584,000	558,400	
Total Outstanding Share Capital		$ 788,400			$ 788,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion.

March 31, 2004 ($ in thousands except as otherwise indicated)

12. OPERATING AND ADMINISTRATIVE EXPENSES

	2004			2003		
	Loans	**Consulting**	**Venture Capital**	Loans	Consulting	Venture Capital
Salaries and staff benefits	**$ 115,853**	**$ 19,280**	**$ 6,815**	$ 95,923	$ 17,465	$ 6,193
Premises and equipment	**27,056**	**679**	**1,236**	25,042	649	1,179
Other expenses	**57,212**	**3,182**	**3,075**	55,484	3,249	4,237
	$ 200,121	**$ 23,141**	**$ 11,126**	$ 176,449	$ 21,363	$ 11,609

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2004			2003		
	Carrying value	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	**$ 773,365**	**$ 773,365**	**$ –**	$ 730,717	$ 730,717	$ –
Securities (Note 4)	**92,084**	**92,834**	**750**	63,259	63,878	619
Loans, net of allowance for credit losses	**6,977,544**	**7,022,150**	**44,606**	6,288,636	6,307,924	19,288
Venture capital investments (Note 7)	**345,624**	**365,971**	**20,347**	301,945	287,591	(14,354)
Other assets	**259,203**	**259,203**	**–**	144,498	144,498	–
	$ 8,447,820	**$ 8,513,523**	**$ 65,703**	$ 7,529,055	$ 7,534,608	$ 5,553
Liabilities						
Accounts payable and accrued liabilities	**$ 58,297**	**$ 58,297**	**$ –**	$ 56,555	$ 56,555	$ –
Accrued interest on borrowings	**101,751**	**101,751**	**–**	59,457	59,457	–
Short-term notes	**3,383,398**	**3,383,398**	**–**	3,265,368	3,265,368	–
Long-term notes	**3,797,704**	**3,995,389**	**197,685**	2,908,520	2,924,414	15,894
Other liabilities	**6,148**	**6,148**	**–**	5,689	5,689	–
	$ 7,347,298	**$ 7,544,983**	**$ 197,685**	$ 6,295,589	$ 6,311,483	$ 15,894
			$ (131,982)			$ (10,341)
Derivative financial instruments (Note 14)	**$ 130,099**	**$ 240,841**	**$ 110,742**	$ (43,923)	$ (60,327)	$ (16,404)
Total			**$ (21,240)**			$ (26,745)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value - The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities - The fair value of securities is provided in Note 4 to the financial statements.

Loans - For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments - For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using earnings multiples.

Long-term notes - The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments - The fair value of derivative financial instruments is provided in Note 14 to the financial statements.

14. DERIVATIVE FINANCIAL INSTRUMENTS

As described in note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

March 31, 2004 ($ in thousands except as otherwise indicated)

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by positive and negative fair values.

	2004			2003		
	Positive	**Negative**	**Net amount**	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 8,173**	**$ 1,990**	**$ 6,183**	$ 5,997	$ 3,391	$ 2,606
Equity-linked swap contracts	**377,346**	**85,069**	**292,277**	176,431	143,431	33,000
Forward rate agreements	**106**	**29**	**77**	–	–	–
Cross-currency interest rate swap contracts	**27,384**	**75,067**	**(47,683)**	7,074	39,286	(32,212)
Currency forward contracts	**73**	**10,086**	**(10,013)**	–	63,721	(63,721)
Total fair value	**$ 413,082**	**$ 172,241**	**$ 240,841**	$ 189,502	$ 249,829	$ (60,327)
Less impact of master netting agreements	**116,843**	**116,843**	**–**	66,225	66,225	–
Total	**$ 296,239**	**$ 55,398**	**$ 240,841**	$ 123,277	$ 183,604	$ (60,327)

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	**Counterparty Ratings**			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ 387**	**$ 266,581**	**$ 146,114**	**$ 413,082**
Impact of master netting agreements	**–**	**(53,966)**	**(62,877)**	**(116,843)**
Replacement cost (after master netting agreements)	**$ 387**	**$ 212,615**	**$ 83,237**	**$ 296,239**
Replacement cost (after master netting agreements) - 2003	$ –	$ 75,291	$ 47,986	$ 123,277
Number of counterparties				
March 31, 2004	**1**	**5**	**9**	
March 31, 2003	0	8	7	

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14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2004		2003	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable - fixed	$ 10,000	5.45	$ 15,000	5.60	$ –	–	$ –	–	**$ 25,000**	**$ –**	$ 102,092	$ –
$CDN receivable - fixed	14,355	4.58	125,000	3.82	–	–	–	–	**139,355**	**3,812**	109,963	3,236
$US receivable - fixed	–	–	–	–	–	–	41,201	7.00	**41,201**	**459**	–	–
Basis swaps	1,017,000	n.a.	–	–	–	–	–	–	**1,017,000**	**274**	150,000	–
Equity-linked swap contracts	85,354	n.a.	411,598	n.a.	778,567	n.a.	1,624,596	n.a.	**2,900,115**	**377,346**	2,098,414	176,431
Other swap contracts	–	–	18,812	n.a.	–	–	–	–	**18,812**	**3,628**	18,812	2,761
	1,126,709		570,410		778,567		1,665,797		**4,141,483**	**385,519**	2,479,281	182,428
Forward rate agreements	620,000	n.a.	–	–	–	–	–	–	**620,000**	**106**	–	–
Cross-currency interest rate swap contracts	–	–	–	–	137,580	n.a.	1,537,288	n.a.	**1,674,868**	**27,384**	1,023,714	7,074
Total interest rate contracts	1,746,709		570,410		916,147		3,203,085		**6,436,351**	**413,009**	3,502,995	189,502
Foreign exchange contracts												
Currency forward contracts	440,823	n.a.	–	–	–	–	–	–	**440,823**	**73**	1,268,540	–
Total foreign exchange contracts	440,823		–		–		–		**440,823**	**73**	1,268,540	–
Total	$ 2,187,532		$ 570,410		$ 916,147		$ 3,203,085		**$ 6,877,174**	**$ 413,082**	$ 4,771,535	$ 189,502
Less impact of master netting agreements	–	–	–	–	–	–	–	–	**–**	**116,843**	–	66,225
Total	$ 2,187,532		$ 570,410		$ 916,147		$ 3,203,085		**$ 6,877,174**	**$ 296,239**	$ 4,771,535	$ 123,277

n.a. – not applicable or weighted rates are not significant

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

15. INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences

16. GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees

In February 2003, the CICA issued an accounting guideline on the disclosure of guarantees, which broadens the definition of guarantees and requires substantially expanded disclosure. This new guideline was effective for the Bank this year. As this guideline requires disclosure only, there was no impact on the Statement of Income and Balance Sheet.

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform [illegible] indemnifications that the Bank provides to its customers and other third parties are presented below.

March 31, 2004 ($ in thousands except as otherwise indicated)

16. GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Derivative instruments

As part of its financing operations, the Bank has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit derivative is $47,133 and is included in the Balance Sheet under Other liabilities (Note 10).

Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that the Bank cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, the Bank has not made any significant payments under these indemnities.

Contingent liabilities

A class action recourse has been launched by some of the Bank's pensioners for surplus amounts in the Bank's Pension Plan. The outcome of this lawsuit is undeterminable.

A former President and Chief Executive Officer of the Bank who was released from his duties in February 2004, has instituted proceedings against the federal government for the recovery of damages allegedly resulting from the termination of this employment. Although named in the lawsuit as an impleaded party, the Bank is not a target of the litigation and no monetary or other demands have been made against it. Nonetheless, it is not currently determinable whether the Bank may ultimately be required to fund any settlement of this matter.

Due to the uncertainty of the outcome and amount of financial settlement, if any, with respect to the above-noted legal claims, no provisions have been recorded by the Bank.

Various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that should the Bank be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

Commitments

Undisbursed amounts of authorized loans are approximately $894,000 at March 31, 2004. These loan commitments are for an average period of three months ($59,000-fixed rate; $835,000-floating rate). The effective interest rates on these loan commitments vary from 4.5% to 18.0%. These include the Bank's share of undisbursed amounts of authorized joint venture financings which is approximately $10,000 at March 31, 2004. The undisbursed amounts on authorized venture capital investments approximated $74,000 at March 31, 2004.

Future minimum lease commitments under operating leases related to the rental of Bank premises are approximately as follows:

2005	$ **18,000**
2006	**18,000**
2007	**16,000**
2008	**15,000**
2009	**13,000**
2010 - 2020	**80,000**
	$ **160,000**

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17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans for eligible employees ("pension plan"), which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides health care benefits, life insurance and other benefits for employees and eligible retirees.

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2004	2003	**2004**	2003	**2004**	2003
Change in accrued benefit obligation						
Balance at beginning of year	**$ 380,192**	$ 360,939	**$ 30,862**	$ 29,861	**$ 81,567**	$ 74,595
Current service cost	**13,935**	13,054	**854**	1,002	**3,079**	3,112
Interest cost on benefit obligation	**26,030**	24,465	**2,127**	2,055	**5,465**	5,211
Benefits paid	**(16,988)**	(17,686)	**(417)**	(388)	**(3,594)**	(2,887)
Actuarial (gain) loss	**7,767**	(580)	**3,211**	(1,668)	**(1,391)**	1,536
Balance at end of year	**410,936**	380,192	**36,637**	30,862	**85,126**	81,567
Change in fair value of plan assets						
Balance at beginning of year	**$ 422,309**	$ 452,534	**$ 3,607**	$ 3,827	**$ –**	$ –
Employee contributions[1]	**–**	–	**–**	–	**–**	–
Employer contributions	**–**	–	**151**	125	**916**	633
Actual return on plan assets during the year	**48,599**	(12,539)	**36**	43	**–**	–
Benefits paid	**(16,988)**	(17,686)	**(417)**	(388)	**(916)**	(633)
Balance at end of year	**453,920**	422,309	**3,377**	3,607	**–**	–
Surplus (deficit) at end of year	**$ 42,984**	$ 42,117	**$ (33,260)**	$ (27,255)	**$ (85,126)**	$ (81,567)
Employer contributions after December 31	**–**	–	**532**	36	**750**	153
Unamortized transitional obligation (asset)	**(60,485)**	(73,927)	**783**	516	**1,775**	1,972
Unamortized net actuarial loss	**78,332**	94,416	**8,048**	5,105	**2,766**	4,135
Accrued benefit asset (liability) at end of year[2]	**$ 60,831**	$ 62,606	**$ (23,897)**	$ (21,598)	**$ (79,835)**	$ (75,307)

[1] Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized

[2] Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

The unamortized net actuarial loss in the Bank's registered pension plan is $78,332 which exceeds 10% of the fair value of the plan assets by $32,940 at December 31, 2003. The unamortized net actuarial loss in the supplemental pension plans is $8,048 which exceeds 10% of the benefit obligation balance by $4,384 at December 31, 2003. These excess amounts will be amortized to pension expense over the expected average remaining service life of active employees, commencing April 1, 2004. As a result of these changes and other factors, pension expense is expected to decrease by approximately one million dollars in fiscal 2005. Amortization of accumulated net actuarial losses in periods subsequent to March 31, 2005 will be affected principally by the discount rate used to estimate benefit obligations and by the difference between future investment results and the expected return on plan assets.

March 31, 2004 ($ in thousands except as otherwise indicated)

17. EMPLOYEE FUTURE BENEFITS (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2004	2003	**2004**	2003	**2004**	2003
Plan expense (credit)						
Current service cost	**$ 13,935**	$ 13,054	**$ 854**	$ 1,002	**$ 3,079**	$ 3,112
Interest cost on benefit obligation	**26,030**	24,465	**2,127**	2,055	**5,465**	5,211
Expected return on plan assets	**(31,036)**	(35,495)	**(130)**	(148)	**(22)**	–
Amortization of transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	197
Amortization of net actuarial loss	**6,287**	231	**362**	621	**–**	55
Expense (credit) for the year ended March 31	**$ 1,775**	$ (11,186)	**$ 2,946**	$ 3,263	**$ 8,719**	$ 8,575

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2004	2003	**2004**	2003
Fair value of plan assets	**$ 3,377**	$ 3,607	**$ –**	$ –
Accrued benefit obligation	**36,637**	30,862	**85,126**	81,567

As at December 31, 2003, the market value of assets in the Bank's registered pension plan is as follows:

Cash and short-term investments	**$ 3,462**
Bonds	**163,395**
Common and preferred shares	**286,805**
Other assets less liabilities	**258**
Net assets available for benefits	**$ 453,920**

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2004	2003	**2004**	2003	**2004**	2003
Significant actuarial assumptions						
Discount rate at beginning of year	**6.75%**	6.70%	**6.75%**	6.70%	**6.75%**	6.70% - 6.75%
Discount rate at end of year	**6.25%**	6.75%	**6.25%**	6.75%	**6.25% - 6.75%**	6.75%
Expected long-term rate of return on plan assets[1]	**7.50%**	8.00%	**3.75%**	4.00%	**–%**	–

[1] The expected long-term return on plan assets is calculated using assets valued at fair market value.

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2003, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 2.5% in 2005 graded down by 0.5% each year to 1.0% in 2008 and subsequent years (in 2003 an increase of 2.5% for 2004 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

The Bank has two benefit obligations: one for pension benefits and the other for other employee future benefits. These benefit obligations represent the amount of pension and other employee future benefits that the Bank's employees and retirees have earned by the December 31st prior to year-end. The Bank's pension expense is calculated at this date for the March 31st that follows. Post retirement benefits are based on valuations at March 31 of the prior year. Post employment benefits are calculated as at March 31, 2004.

The Bank's actuaries prepare annual valuations of benefit liabilities for pension and other employee future benefits that the employees and retirees of the Bank have earned as at March 31. These valuations are based on management's assumptions about discount rates, salary growth, expected average remaining service life, mortality and health care cost trends. The discount rate is determined by management with reference to market conditions in place at the December 31st immediately prior to the new fiscal year (April 1st). Other assumptions are determined with reference to long-term expectations.

March 31, 2004 ($ in thousands except as otherwise indicated)

17. EMPLOYEE FUTURE BENEFITS (continued)

Sensitivity of Assumptions

The key weighted-average economic assumptions used in measuring the pension benefit liability, the supplemental pension plans and the other plans liabilities and their related expenses are summarized in the table below.

Increase (decrease) in	Registered pension plan expense	Supplemental pension plans expense	Other plans expense
Expected rate of return on assets	7.50%	3.75%	n.a.
Impact of: 1% increase	(4,138)	(19)	n.a.
1% decrease	4,138	19	n.a.
Discount rate	6.75%	6.75%	6.75%
Impact of: 1% increase	(9,203)	(591)	1
1% decrease	7,980	456	50
Rate of compensation increase	4.35%	4.35%	4.35%
Impact of: .25% increase	508	132	47
.25% decrease	(568)	(132)	(47)
Assumed overall health care cost trend			
Impact of: 1% increase	n.a.	n.a.	(7,149)
1% decrease	n.a.	n.a.	5,161

18. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations.The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in notes 5 and 7 respectively.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2004.

Five-Year Operational and Financial Summary

OPERATIONAL STATISTICS

for the years ended March 31 *($ in thousands)*

	2004	2003	2002	2001	2000
LOANS AND VENTURE CAPITAL					
Total financing committed					
as at March 31					
Amount	**$ 8,844,758**	$ 8,025,719	$ 7,201,137	$ 6,352,838	$ 5,641,060
Number of clients	**22,966**	21,897	20,780	19,664	18,667
Committed to lending clients					
as at March 31					
Amount	**$ 8,354,022**	$ 7,595,964	$ 6,826,948	$ 6,056,761	$ 5,445,990
Number of clients	**22,796**	21,733	20,625	19,533	18,568
Committed to investment clients					
as at March 31					
Amount	**$ 490,736**	$ 429,755	$ 374,189	$ 296,077	$ 195,070
Number of clients	**170**	164	155	131	99
Total financing authorized					
Net amount	**$ 2,191,459**	$ 2,124,596	$ 1,845,425	$ 1,647,032	$ 1,428,312
Number	**7,338**	6 387	5,806	5,173	4,749
Lending authorized					
Net amount	**$ 2,082,647**	$ 2,031,907	$ 1,739,404	$ 1,532,870	$ 1,365,516
Number	**7,268**	6,326	5,743	5,102	4,687
Investments authorized					
Net amount	**$ 108,812**	$ 92,689	$ 106,021	$ 114,162	$ 62,796
Number	**70**	61	63	71	62
FINANCIAL STATISTICS					
Net interest income and other income					
as a percentage of average loan portfolio	**5.8%**	5.8%	5.9%	5.8%	5.6%
Provision for credit losses					
as a percentage of average loan portfolio	**1.7%**	1.5%	1.7%	2.0%	2.0%
Operating and administrative expenses					
as a percentage of average loan portfolio	**2.8%**	2.8%	2.9%	3.1%	3.0%
Loan operations productivity ratio	**48.7%**	47.8%	48.5%	52.6%	54.7%
CONSULTING REVENUE	**$ 20,006**	$ 18,221	$ 18,189	$ 17,724	$ 19,396

FINANCIAL INFORMATION

($ in thousands)

	2004	2003	2002	2001	2000
STATEMENT OF INCOME					
for the years ended March 31					
Net Income (loss)					
Loans	**$ 92,555**	$ 94,507	$ 80,458	$ 37,254	$ 25,320
Consulting	**$ (3,135)**	$ (3,142)	$ (5,748)	$ (5,100)	$ (4,254)
Venture Capital	**$ (30,299)**	$ (59,485)	$ (20,977)	$ 56,168	$ 80,039
Net Income	**$ 59,121**	$ 31,880	$ 53,733	$ 88,322	$ 101,105
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 6,977,544**	$ 6,288,636	$ 5,669,513	$ 5,054,254	$ 4,608,188
Venture capital investments, net of accumulated write-down of investments	**$ 345,624**	$ 301,945	$ 271,064	$ 206,360	$ 145,107
Total assets	**$ 8,809,218**	$ 7,791,359	$ 6,897,204	$ 6,225,518	$ 5,666,333
Total shareholder's equity	**$ 1,218,459**	$ 1,170,017	$ 960,320	$ 923,304	$ 783,826
Total liabilities	**$ 7,590,759**	$ 6,621,342	$ 5,936,884	$ 5,302,214	$ 4,882,507
Average loan portfolio	**$ 7,136,429**	$ 6,402,284	$ 5,749,376	$ 5,194,279	$ 4,736,601

Glossary

Allowance for Credit Losses
Represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Debt to Equity Ratio
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of BDC's debt to equity ratio may not exceed 12:1.

Derivatives Financial Instruments
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct Investments
Represents the investments made by BDC directly in the investee companies.

Productivity Ratio
A measure of the efficiency with which BDC incurs expenses to generate income on its loan operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

General Allowance
Established by management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired Loans
Loans where, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Investment Income
Income generated from BDC's venture capital investments, such as interest, dividends, and net realized gains on divestitures.

Master Netting Agreement
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

Net Interest and other Income
The difference between what is earned on loan portfolio assets and securities, and what is paid on borrowings.

Net Margin
Is the net interest and other income earned by the performing loan portfolio, expressed as a percentage of the total average loan portfolio.

Performing portfolio
Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment
Investments become permanently impaired, in management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

Provision for Credit Losses
A charge to income that represents an amount deemed adequate by management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on Common Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Consulting Revenue
Fees from services provided by the BDC's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

Specific Allowance
Established by management to recognize credit losses in the existing loan portfolios, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

Swaps
Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

Write-down
To recognize the loss when the value of a venture capital investment is permanently impaired.

Other definitions in the MD&A:

- Economic Capital – page 47
- Environmental Risk – page 47
- Foreign Exchange Risk – page 50
- Interest Rate Risk – page 49
- Internal Rate of Return (IRR) – page 43
- Issuer/Counterparty Risk – page 48
- Liquidity Investment Risk – page 48
- Loan Credit Risk – page 47
- Loan Portfolio Concentration Risk – page 48
- Market Risk – page 49
- Operational Risk – page 50

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BDC
BANKING ON CANADIAN ENTREPRENEURS

ANNUAL REPORT 2005

Canada

BDC: Developing business with you

BDC sustains the efforts of Canadian entrepreneurs by promoting the creation and growth of their businesses with a focus on knowledge-based industries and exporters. The adoption of the *Business Development Bank of Canada Act* in 1995 strengthened and clarified BDC's public policy mandate, particularly by making BDC a complementary lender to other institutions in the Canadian financial services market whose main task consists of being actively present in target markets and in every stage of business growth. This important legislative change provided the base from which BDC has been able to help Canada's entrepreneurs start their businesses, as well as boost productivity, stimulate growth and maximize their management savvy.

Although the business environment has changed significantly in the last 10 years, BDC has succeeded in establishing a close and durable business relationship with its clients by consistently developing business solutions responsive to their needs and by extending its reach in all regions of the country. Relying on a dedicated and knowledgeable team of professionals, BDC is determined to go the extra mile to support Canadian entrepreneurs in their business ventures. By helping develop entrepreneurial excellence, BDC contributes to reinforcing Canadian businesses, enabling them to strengthen the national economy.

Table of Contents

Mandate

BDC's mandate as set out in the *Business Development Bank of Canada Act* of 1995 (BDC Act) is to support Canadian entrepreneurship by providing financial and consulting services. BDC is also mandated to be a complementary lender in the market: financing and investments are to fill out or complete services available from commercial financial institutions.

Mission

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial and consulting services.

Vision

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

Core Values

To uphold the following core values that define BDC and strengthen its corporate culture: ethics, client connection, team spirit, accountability and work/life balance.

Key Services

BDC Financing
Long-term loan financing designed particularly to support start-ups and innovation strategies, and to offer equipment financing for modernization purposes.

BDC Venture Capital
Covers every stage of a company's development cycle, from seed through expansion, with a focus on early-stage and fast-growing businesses in four target sectors: life sciences, telecommunications, information technology and advanced technologies.

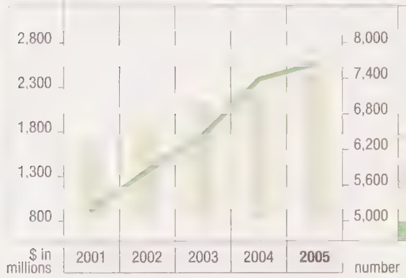
BDC Subordinate Financing
Hybrid instrument combining elements of both debt financing and equity financing, which is offered to more mature businesses with excellent growth potential.

BDC Consulting
Customized business consulting services delivered through a national network of professional consultants and designed to help Canadian entrepreneurs maximize their management savvy.

BDC Connex®
Offers Canadian entrepreneurs a variety of online services and handles many BDC alliances and partnerships, such as the partnership agreements with Community Futures Development Corporations (CFDCs).

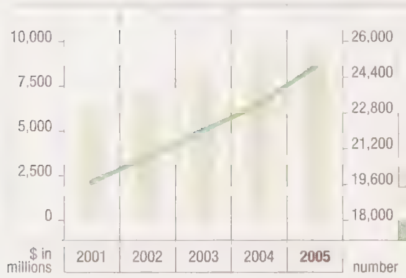
2005 Highlights

Total Financing Authorized for the years ended March 31



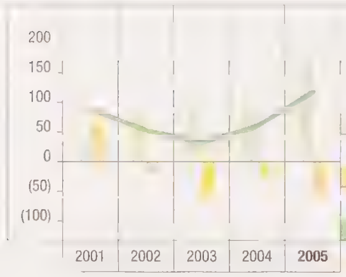
	2001	2002	2003	2004	**2005**
Amount	1,647	1,845	2,125	2,192	**2,410**
Number authorized	5,173	5,806	6,387	7,338	**7,603**

Total Financing Committed as at March 31



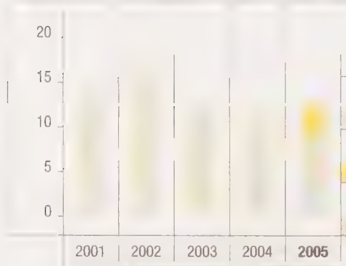
	2001	2002	2003	2004	**2005**
Amount	6,353	7,201	8,026	8,845	**9,619**
Number of clients	19,664	20,780	21,897	22,966	**24,571**

Net Income for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Loans and Consulting	32.1	74.7	91.4	89.4	**169.6**
Venture Capital	56.2	(21.0)	(59.5)	(30.3)	**(56.1)**
Total net income	88.3	53.7	31.9	59.1	**113.5**

Dividends Declared for the years ended March 31 ($ in millions)

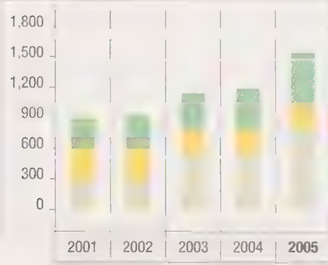


	2001	2002	2003	2004	**2005***
Dividends on preferred shares	13.8	16.7	12.2	10.3	**9.0**
Dividends on common shares	–	–	–	0.4	**3.3**
Total dividends declared	13.8	16.7	12.2	10.7	**12.3**

* In addition, based on BDC's fiscal 2005 performance, common dividends of $7.8 million were declared after March 31, 2005 and will be paid and recorded in fiscal 2006

2005 Highlights

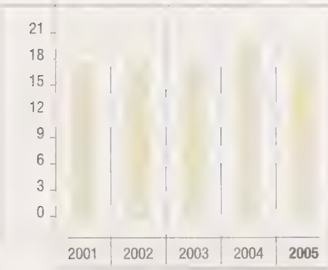
Total Shareholder's Equity as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Common shares*	331.2	331.2	586.2	586.2	**836.2**
Preferred shares	295.0	295 0	230.0	230 0	**230.0**
Retained earnings	297.1	334.1	353.8	402.3	**503.4**
Total shareholder's equity	923.3	960.3	1,170.0	1,218.5	**1,569.6**

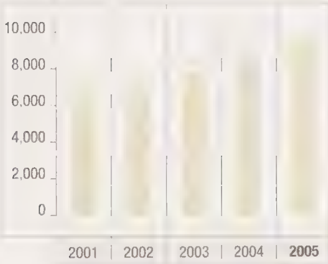
* Includes $27.8 million of contributed surplus.

Consulting Revenue for the years ended March 31 ($ in millions)



2001	2002	2003	2004	**2005**
17.7	18.2	18.2	20.0	**18.9**

Total Assets as at March 31 ($ in millions)



2001	2002	2003	2004	**2005**
6,226	6,897	7,791	8,809	**9,445**

Total Value of Venture Capital Projects Financed

for the years ended March 31 ($ in millions)

	2001	2002	2003	2004	**2005**
BDC Venture Capital authorized	114	106	93	109	**143**
Other sources of investment (estimated)	636	472	446	598	**652**
Total	750	578	539	707	**795**

Objectives, Measurements and Targets

BDC's balanced scorecard is built around the following perspectives: clients, employees, efficiency and financial sustainability. This approach translates BDC's objectives and strategies into coherent sets of performance measurements and ensures integrated risk management of BDC's business risks.

CORPORATE OBJECTIVES

Clients – To create a unique and valued relationship with Canadian entrepreneurs to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees – To foster a culture of engagement, learning and growth (measured by employee commitment).

Efficiency – To establish effective and efficient operating and administrative expenses to net interest and other income (measured by the efficiency ratio).

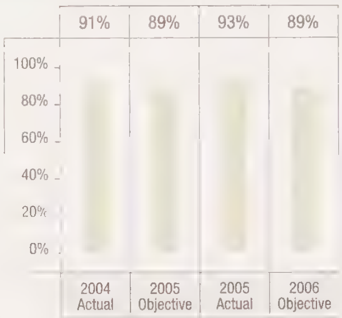
Financial Sustainability – To be profitable in order to grow while fulfilling BDC's public policy mandate [measured by the outstanding loans portfolio, the internal rate of return (IRR) of BDC Venture Capital and BDC Consulting revenue] and to generate a return on common equity (ROE) at least equal to the government's average long-term cost of funds.

RMANCE AND CORPORATE OBJECTIVES

PERFORMANCE

Client Satisfaction

- Innovative product offerings and continued strong client contact drove the rate of satisfied or very satisfied customers up to 93%.



Employee Commitment

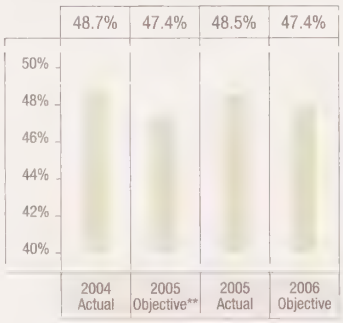
- The Employee Engagement Survey showed a decline to 74% – a reduction of 3% from both 2004 and the objective of 77%.

Efficiency Ratio*

- In step with the ratio from 2004.
- Operating expenses were in line with the objective.
- Reduced income from the portfolio caused by reduced loan disbursements and increased loan prepayments.

** The lower the ratio, the higher the efficiency achieved.*

*** 46% as per 2005 Corporate Plan. 47.4% represents new internal objective.*



2006 OBJECTIVES

Client Satisfaction:

- Client Satisfaction: 89%
- Increase the risk profile of new authorizations, which may impact client satisfaction due to pricing for risk.

Employee Commitment:

- Employee Commitment: 78%
- Foster open and honest communication.
- Promote self-motivation and career management.
- Enhance workforce diversity.

Efficiency Ratio:

- Ratio: 47.4%
- Strive for efficiency gains through continued diligence on cost control.
- Accelerate disbursement of authorized loans.
- The implementation of a Guided Portfolio Simplification (GPS) combined with new segmentation guidelines to focus on value-added activities with existing clients.

PERFORMANCE	2006 OBJECTIVES

Outstanding Loan Portfolio

A record $2.3 billion in net loan authorizations in fiscal 2005 drove the portfolio up to $8.1 billion, an increase of $0.6 billion from 2004, but slightly under the goal of $8.2 billion.

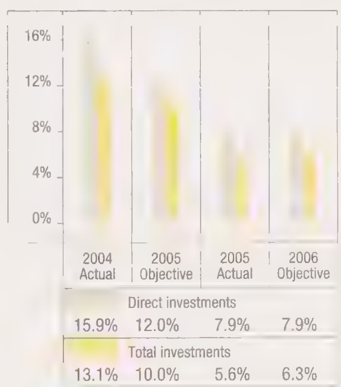
* *$8.4 billion as per 2005 Corporate Plan. $8.2 billion represents new internal objective.*

2006 Objectives:

- Portfolio: $8.8 billion
- Further increase risk tolerance through Co-Vision Loans, Productivity Plus Loans and Innovation Financing.
- Partnership agreements with CFDCs and *Caisse de dépôt et placement du Québec*.

Venture Capital 10-year IRR

BDC Venture Capital had a difficult year – write-downs of $47 million forced the IRR on total investments to 5.6% versus 13.1% in 2004 and the planned 10%.



2006 Objectives:

- Direct investments: 7.9%
- Total investments: 6.3%
- Continue to hold the course as a leader in the Canadian venture capital industry of early-stage technology.
- Seek opportunities for divestiture of profitable holdings.

Consulting Revenue

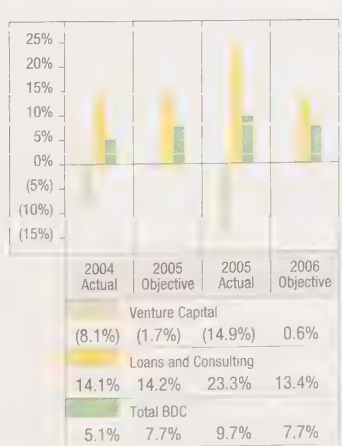
BDC recorded consulting revenues of $18.9 million, in line with plan, but slightly lower than 2004.

2006 Objectives:

- Consulting revenue from activities: $21 million.
- Continued growth in revenues through the consultant in-residence program.

Return on Common Equity

- Total BDC ROE of 9.7% was nearly double the 5.1% of 2004, as a result of the strength in the loans portfolio.
- ROE on Loans and Consulting increased to 23.3%, as the low loan loss provisions drove income from loans to record levels.



2006 Objectives:

- ROE: 7.7%
- Generate an ROE at least equal to the government's average long-term cost of funds.
- ROE is expected to decline as provisions for loan losses are expected to return to more normal levels.

CEDRIC E. RITCHIE, Chairman of the Board

Chairman's Message

In 2005, BDC reported excellent financial results. Net loan authorizations stood at a record high $2.3 billion, topping $2 billion for the third consecutive year. Such outstanding results are proof that BDC efficiently fulfills its mandate, a subject that was addressed in a mandate letter that the Federal Minister of Industry, David L. Emerson, wrote to BDC on December 16, 2004. Notwithstanding the fact that BDC operates at arm's length from its shareholder, there are two important issues mentioned in the Minister's letter that I would like to address: BDC's public policy mandate and corporate governance.

A [illegible] PUBLIC POLICY ROLE

In his letter, the Minister states that he wishes BDC to strengthen its commitment to Canadian entrepreneurs in accordance with its public policy goals. In fiscal 2005, BDC continued to carry out its mandate in more ways than one. Its business solutions, designed to fill gaps in the market by targeting specific sectors and stages of growth, increased significantly in 2005 compared to the previous year. And the commitment towards women, Aboriginal and young entrepreneurs continued unabated, whether in terms of innovative financing solutions or steadfast support for timely initiatives.

Although BDC Venture Capital transactions were at an all time high in fiscal 2005, the sector's recovery is taking longer than expected. Nonetheless BDC has maintained its focus on promising knowledge-based industries (KBIs). Accounting for about 10% of the total number of transactions, BDC represents a leading player in the Canadian venture capital market. Determined to continue fulfilling the terms of its mandate, it will persist in helping create and develop KBIs throughout Canada, particularly by encouraging the commercialization of new technologies. To accomplish this task, BDC builds on its venture capital strategy, which consists of working closely with its financial partners and investees, as well as developing solid and durable networks in the financial and scientific communities.

The ongoing expansion of business partnerships represents yet another means for BDC to reaffirm its public policy role. The signing of agreements with partners that share BDC's objective of promoting the growth of Canadian small and medium-sized businesses enables BDC to reassert its long-standing commitment to Canadian entrepreneurs. In fiscal 2005, BDC signed many partnership agreements with Community Futures Development Corporations (CFDCs), thereby reiterating its support for community economic development initiatives in all regions of the country.

EFFICIENT CORPORATE GOVERNANCE POLICIES AND PRACTICES

Corporate governance represents the second crucial issue that needs to be addressed. Today more than ever, the adoption of sound corporate governance policies and practices reflects the determination of an organization to adhere to the highest standards of responsibility and integrity, as well as to maintain the trust of stakeholders and the public. I am happy to report that important work has been done in this regard by BDC during fiscal 2005.

In the past year, all employees reaffirmed BDC's core values: ethics; client connection; team spirit; accountability; and work/life balance. These values were endorsed by the Board and integrated into a revised Employee Code of Conduct, Ethics and Values. In addition, the Board adopted a new Board Code of Conduct. The two codes are based on a set of principles – including compliance with the law, trust, fairness and objectivity – that enables BDC employees and Board members to carry out their responsibilities.

I wish to extend my deepest appreciation for the active contribution of the following BDC Directors who have left the Board: Leo Cholakis, Jennifer Corson, James A. Durrell, N. Murray Edwards, Gordon J. Feeney, Oryssia Lennie, Barbara Stymiest and Jean-Claude Villiard. I also want to welcome the new Board members who have recently joined us.

2005 has been a most challenging year for all of us at BDC. Our employees' unwavering commitment to serving our clients represents a precious asset year after year, and reaffirms BDC's determination to carry out its public policy mandate in accordance with the needs of Canadian entrepreneurs.

ANDRÉ BOURDEAU, Acting President and Chief Executive Officer and
Executive Vice President, Financial Services and BDC Consulting Group

President's Message

Ten years ago, when BDC's name was changed and its mandate broadened, the word *development* took on greater significance than ever before in our history. Finding creative ways to fill the gaps hindering the development of small and medium-sized enterprises (SMEs) became the single focal point of all of our strategic planning and activities. • I believe that over the past 10 years we have had resounding success in filling those gaps, in taking calculated risks and in playing our role as a complementary lender in every region of the country. Fiscal 2005 was a banner year at BDC with record loan authorizations of $2.3 billion and an efficiency ratio of 48.5%. Since 1997, BDC has paid dividends to our shareholder totalling $81.1 million and by increasing our operational efficiency, we have succeeded in creating additional equity that will allow us to finance new services. In addition, BDC will pay $16.8 million in dividends to our shareholder before June 30, 2005.

SMALLER LOANS, HIGHER RISKS

Let me illustrate the significance of our achievements with concrete examples. Not only have we significantly increased the number of businesses to which we have extended financing, from 14,400 in fiscal 1995 to over 24,000 in fiscal 2005, we have also dramatically increased our support of start-up businesses which traditionally find it difficult to obtain suitable financing in the marketplace considering that the loans they require are smaller and riskier.

Start-up businesses now represent some 10% of BDC's portfolio while surveys indicate that they make up only 5% of the total number of businesses in Canada. Today, there are more than 10,000 loans of $100,000 or less on BDC's books, an increase of 78% over the past 10 years. Over 60% of our loans are of $250,000 and less.

But the importance of BDC's role as a development bank extends beyond the amount of financing and the number of loans it authorizes. It includes as well the categories of businesses we support. Businesses in manufacturing, exporting and fast-growth sectors generally are a key target for BDC support. In addition, knowledge-based industries are cornerstones of Canada's economy, and it is BDC's role to ensure that they have the opportunity to grow and prosper.

FAST-GROWTH BUSINESSES AT BDC – TWICE THE MARKET WEIGHT

Loan financing committed to manufacturing businesses has risen by 353% over the past 10 years to $3.3 billion, while our commitment to exporters has increased eightfold from $438 million to $3.5 billion at the close of fiscal 2005. In addition, fast-growth businesses make up 28% of our loans portfolio, while their weight in the Canadian economy is only 13%.

VENTURE CAPITAL – VITAL TO KNOWLEDGE-BASED BUSINESSES

At the same time, knowledge-based industries have assumed a vital role in our economy and BDC Venture Capital's commitment to them has risen from $33 million in fiscal 1995 to over $600 million 10 years later. In the extremely volatile context of equity markets for knowledge-based businesses at the present time and over the past few years, BDC Venture Capital has indeed filled its development role, continuing to provide risk capital to promising companies. The shareholder's recent injection of $250 million to help promote BDC Venture Capital activities will greatly contribute to our ability to continue offering our support, especially for businesses at the seed and start-up stages.

In the near to medium-term, our venture capital commitment had and will continue to have a negative impact on net earnings. However, it is a clear illustration of BDC's development role and how it compensates for gaps in private sector financing.

All this to say that BDC has gone the extra mile in helping develop businesses to add value to its clients and to support Canadian SMEs that account for 43% of the Canadian economy and employ some 65% of our population.

CLIENT SATISFACTION – 93%

The positive impact is clear and encouraging. BDC authorized more than 7,500 loans in fiscal 2005, three years ahead of its objective. At the same time, we achieved a client satisfaction rate of 93%. Our commitment in venture capital to knowledge-based businesses provided much needed equity financing in the context of a downturn in equity markets. And BDC Consulting continued to play an important role in supporting and promoting quality management in SMEs, generating $19 million in revenues in fiscal 2005. All of this, while remaining profitable and increasing our dividend to the shareholder.

How did we do this? In a number of ways: we introduced new and innovative financial and consulting services and new marketing strategies to reach our clients; we reviewed our internal operations to increase efficiencies and our ability to assume risk, and we focused on developing the commitment of our employees to BDC's core values and unique development role.

INNOVATIVE PRODUCTS

Supporting growth and innovation among Canada's SMEs, a major part of our development role, demands innovative financing products and management consulting services, as well as a creative approach to marketing these services to our clients. Over the past decade, BDC has created flexible financing and consulting solutions to meet the extremely varied needs of Canada's entrepreneurs.

Through BDC Financing, we have introduced start-up loans, that we call *Co-Vision Loans*, of up to $100,000 without tangible guarantees. We also provide *Productivity Plus Loans* to improve productivity. These loans, of up to $5 million, can be used to finance the purchase of new or used machinery for up to 125% of the value of the client's project while helping to cover downtime costs and staff training. In addition, to encourage innovation, we offer working capital loans, *Innovation Financing*, of up to a maximum of $250,000 without tangible guarantees, for growth businesses, to finance product development, marketing and training. All of these products have been found useful by entrepreneurs. Overall, the volume of lending for these products increased once again in fiscal 2005 by 23%, to $264 million.

BDC CONSULTING – A LEADING RESOURCE FOR INTERNATIONAL QUALITY CERTIFICATION

Increasingly, BDC offers its financing and management consulting services to SMEs on an integrated basis. In doing so, we make a significant contribution to the quality of their management practices. Over the past decade, BDC Consulting has become one of Canada's leading resources in helping introduce SMEs to international quality certification standards, thereby facilitating their access to export markets around the world.

REACHING THE MARKET CREATIVELY AND EFFICIENTLY

Fostering business development in every part of the country, including rural areas, is a fundamental part of BDC's public policy mandate. Reaching very small businesses is another.

To extend our reach beyond BDC's more than 80 branches, we have signed partnership agreements with more than 150 Community Futures Development Corporations. We have formed alliances with these corporations because we believe that, together, we can offer small businesses, particularly in rural areas, more financing and consulting options.

We also have 19 Entrepreneurship Centers operating across Canada, maximizing our "money and more" approach, providing loans of up to $250,000 and the full range of BDC Consulting management solutions. Providing integrated financial and management consulting services for very small businesses is a vital part of our role to help develop businesses in Canada.

As part of its public policy mandate and development role, BDC also supports women, Aboriginal and young entrepreneurs. BDC created a $25-million quasi-equity fund for women entrepreneurs in 2004 and at the end of fiscal 2005, it had already authorized $11.9 million of this fund for women in business. The majority of the projects financed provided capital to support expanding businesses. Other projects included financing management buyouts and intergenerational transfers of ownership. Overall in fiscal 2005 BDC extended its lending commitment to women-owned businesses to $1.6 billion.

Nine years ago, we also created an Aboriginal Banking Unit and over the past decade BDC authorized financings of over $90 million to support Aboriginal businesses.

DEVELOPMENT ROLE REMAINS FRONT AND CENTRE FOR FUTURE

If BDC's development of Canada's business sector assumed an intensity and variety over the last decade that it had not known in the past, our goals for the future development of businesses are no less focused and intense. Growth in our portfolio will be the major means of attaining this objective. Our Corporate Plan calls for the number of clients to increase by 25% to 30,000 by 2010, with more smaller loans and an increase of more than 40% in the number of start-up businesses in our portfolio, to 4000. Our goal is also to have 30% of the portfolio in fast-growing businesses, more than twice their percentage of the Canadian business community.

OUR EMPLOYEES MAKE IT HAPPEN

All of this can only be done through the efforts and dedication of our employees. I am proud to be able to say that in fiscal 2005, BDC registered its largest response rate ever to its employee survey measuring employee commitment, a clear demonstration of how serious we all are about making BDC the best possible instrument for business development in Canada. Although the level of commitment declined somewhat from 77% in fiscal 2004 to 74% in fiscal 2005, it still represents a significant increase over the 63% level registered in 2000 in BDC's first employee survey.

Our employees clearly subscribe to the five core values of BDC: *ethics* and mutual trust among ourselves and with clients, suppliers and partners; *client connection*, caring about our clients' success and supporting them every step of the way; *team spirit*, sharing our wide range of experience to help clients succeed; *accountability*, taking responsibility for our actions both inside and outside BDC; and last, *work/life balance*, achieving a healthy balance between the demands of our personal and professional lives.

Basing itself on these values, and most particularly that of ethics, BDC lent its full cooperation to the Gomery Commission. By expressing our values in all of our activities, we will continue to demonstrate to Canadian entrepreneurs that we sincerely share their goals for success.

Before concluding, I would like to extend a warm welcome, on behalf of BDC personnel, to our newly appointed President and Chief Executive Officer, Jean-René Halde, who was appointed on May 5, 2005, and who will officially assume his position on June 20.

I wish to express my heartfelt appreciation to our employees for their remarkable work over the past year and would also like to thank the members of the Board for their support and guidance.

Economic Background

Following slower growth in 2003, Canada's economy bounced back in 2004 and, by most accounts, it was an excellent year with growth across the board. Canada once again reported one of the fastest growth rates and highest living standards among G-7 countries. The International Monetary Fund highlights successes in policy and structural reform and Canada's business-friendly environment as contributing factors to this success. Strong consumer spending and business investment led the way. Resources and, in particular energy, were also a driving force behind Canada's growth in 2004.

Overall, Canada is in a healthy fiscal position. In 2004, it reported a surplus of $9.1 billion, its seventh consecutive year of surplus. As measured by gross domestic product (GDP), Canada's growth was 2.8% for 2004. Unlike previous years, which were marked by rapid growth in some sectors and dramatic decline in others, this growth was distributed across industries. With no major industry posting a decline, this meant that small and medium-sized enterprises (SMEs) had a much more stable operating environment than in recent years.

One of the key economic trends of 2004 was the soaring Canadian dollar. The loonie reached a 12-year high of US$0.85 in November 2004 and has continued to hover above the 80-cent level. While some sectors benefited from the strength of the Canadian dollar others suffered, such as manufacturing and processed goods exporting.

A number of SMEs were able to take advantage of the strength of the Canadian dollar. A stronger dollar meant Canadian exporters could import a larger share of their input at a lower cost, which in turn helped to maintain cost competitiveness. Cheaper capital goods allowed businesses to improve productivity, while steady inflation and low and stable borrowing costs also contributed to this positive effect.

The strong demand for Canadian commodities also helped the export sector cope with the strengthened dollar. The rapid development of the global economy, such as in China, and escalating demand for commodities contributed greatly to Canada's economic growth in 2004. For instance, exports to China rose 39% in 2004, more than twice the 15% increase reported for 2003. According to Export Development Canada (EDC), 2004 was overall a strong year with export sales up by 7.9%.

Energy continues to be Canada's leading resource export. Crude oil prices increased by more than 50% in 2004. Investment in energy, including non-conventional energy sources, was far greater than in any other industry. Small and medium-sized businesses operating in this sector benefited greatly in this context.

Business investment began to recover in 2004. Real business investment in machinery and equipment rose 9.4% in 2004. There was strong spending on transportation equipment, computers and office furniture. The vibrancy of 2004's business investment climate was beneficial to SMEs servicing these needs.

Canadian corporations experienced strong balance sheets and high capacity utilization rates. The manufacturing capacity utilization rate rose to as much as 88.5% in 2004 – a record high, with 10 industries posting rates of over 90%. Businesses broadly remained optimistic about the economic outlook. However, fluctuating world prices for commodities and uncertainties relating to the rising Canadian dollar mean that Canadian businesses, including SMEs, must constantly be ready to adjust to new developments.

The Canadian economy created nearly 226,000 net new jobs. Real consumer spending grew 3.5% in 2004 compared to 3.1% in 2003.

Canada's entrepreneurial culture continues to fuel the economy. It is estimated that small and medium-sized businesses account for close to half of Canadian economic activity. In the current strong economic environment, BDC's role as a development institution is of utmost importance. Our objective is to help Canadian businesses grow and compete effectively on a global level. By continuing to support the investment decisions of Canadian entrepreneurs, BDC enables them to remain active contributors to the national economy.

Our Environmental Commitment

For more than 10 years, BDC has been a recognized leader in developing and applying environmental policies. With the enactment of Bill C-9 in October 2003, an *Act to amend the Canadian Environmental Assessment Act* (the "Act"), BDC will be subject to this Act as of June 11, 2006. The Act focuses on assessments of the environmental effects of a project and the promotion of sustainable development. A working committee, composed of BDC and Canada Environmental Assessment Agency (CEAA) representatives, has agreed on a conceptual framework for developing a regulatory variation of the Act that would tailor the public notification requirements for the environmental assessment process and balance the obligation of BDC under the Act with its confidentiality requirements and its ability to conduct business in a timely manner.

For BDC, sound environmental management is more than good business practice, it also helps build a sustainable future for generations to come. Environmental issues have never been more important than in today's world. A growing number of governments is choosing to ratify international treaties and adopt progressive environmental legislation. Businesses are increasingly required to implement environmental standards and practices. BDC is part of this global trend.

Since the early 1990s, each and every one of BDC's financing decisions has been subject to an internal environmental review. At that time, BDC developed its own Environment Risk Policy to ensure that all credit decisions would include an environmental assessment of clients' installations and business activities. At BDC, we believe that good strategic environmental management brings many advantages, including improved risk management, better compliance with environmental laws, increased customer loyalty and a positive image of environmental responsibility.

THE TERMS OF OUR COMMITMENT

- Our clients must abide by all environmental legislation.
- Our clients must provide details on all environmental concerns related to each property and business activity throughout their relationship with BDC.
- Our clients can be asked to provide environmental assessments prepared by external consultants regarding their properties and business activities to confirm compliance with environmental legislation.
- Our managers perform a general internal environmental assessment that includes site inspections and a review of all existing reports specific to a business' installations and activities.
- BDC will not extend financing if there is an environmental issue that is not or cannot be resolved by the client.

BDC will continue to support Government of Canada strategies with a two-pronged approach. The first involves financing innovation adoption by small and medium-sized businesses to ensure that the most efficient technologies available are adopted and greenhouse gas (GHG) emissions are reduced. The service offering includes the following.

- Innovation Financing
- Productivity Plus Loans to finance more productive assets
- Support for ISO 14000 implementation (environmental standards)
- Planning, market studies and marketing strategies
- Productivity diagnostics – lean manufacturing

The second approach involves supporting the development of new environmental technologies through venture capital investments. BDC continues to seek investment opportunities in new technologies and is pursuing the strategy introduced in its 2004-2008 Corporate Plan to invest $10 million in the environment sector. BDC has already surpassed the original objective by authorizing over $15 million in investments since fiscal 2003.

BDC and its Public Policy Role

A COMMERCIAL CROWN CORPORATION WITH A PUBLIC POLICY MANDATE

Ten years ago, on July 13, 1995, the Parliament of Canada adopted the *Business Development Bank of Canada Act*, which not only gave BDC its current name but also amended its mandate to allow it to act as a complementary lender to other financial institutions in delivering financial services to Canadian small and medium-sized businesses.

Under this revised mandate, BDC is required to fill gaps in the financial services market in Canada in order to better serve and stimulate the growth of certain market segments, including specific categories of entrepreneurs, technological sectors and start-up businesses. Since the *BDC Act* was enacted, it is clear that BDC is playing its role to the fullest by actively contributing to the creation and growth of Canadian small and medium-sized businesses by acting as a first-rate development institution in their business. This role could involve helping entrepreneurs improve their positioning in new markets or offering business solutions enabling them to overcome the numerous challenges they face.

Determined to reinforce its commitment to clients in accordance with its mandate and prompted to adapt itself to changing business circumstances, BDC has in recent years decentralized its operations to reach out to more entrepreneurs than ever before. In addition, BDC has extended the range of services provided to smaller businesses in its 19 Entrepreneurship Centers throughout Canada. With its comprehensive knowledge of client needs, BDC has also designed innovative business solutions aimed at stimulating their productivity and maximizing the management of their business.

In fiscal 2005, BDC's client satisfaction rate reached 93%, the highest figure ever recorded, a tangible proof that BDC's client-driven solutions are yielding results. And the overall results for fiscal 2005 are excellent. BDC's net authorizations exceeded $2.3 billion – above the $2 billion mark for the third consecutive year – while the total value of loans outstanding topped $8 billion for the first time in BDC's history. What contributes to this success is not only the fact that these solutions are customized to fit the client's timely needs but that they are also offered through an efficient operational structure that helps BDC properly fulfill its mandate.

BDC: STRUCTURED AND COMMITTED TO MEET THE NEEDS OF ENTREPRENEURS

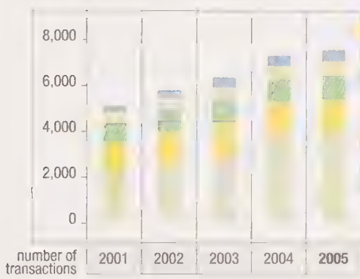
BDC is made up of the following five customer facing units to which BDC clients have access.

BDC Financing

In recent years, BDC has introduced a number of innovative financial products that continued to grow in popularity in fiscal 2005. **Co-Vision Loans** are designed to help start-up businesses obtain financing of up to $100,000 for working capital purposes. **Productivity Plus Loans**, not in excess of $5 million, are offered to finance new or used machinery to improve business productivity. **Innovation Financing**, of up to $250,000, provides working capital for early-stage and fast-growing businesses. In fiscal 2005, the financings authorized for these products grew significantly and contributed to BDC's overall financial performance. In fact, in fiscal 2005, the total amount authorized for the three business solutions combined increased by about 23%. Furthermore, BDC's role as a development institution for smaller businesses is clearly shown in the number of transactions of lending authorized where 71% of the loan transactions involved amounts of up to $250,000.

Lending Authorized – Classification by Size – Number Authorized

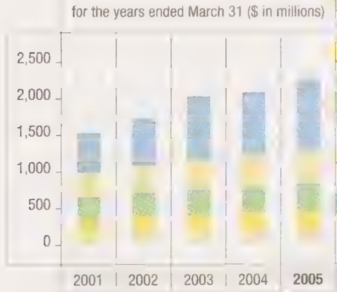
for the years ended March 31



	2001	2002	2003	2004	**2005**
$100,000 or less	2,203	2,574	2,944	3,919	**3,948**
Over $100,000 to $250,000	1,260	1,398	1,438	1,361	**1,424**
Over $250,000 to $500,000	877	918	962	940	**1,023**
Over $500,000 to $1,000,000	484	524	543	593	**650**
Over $1,000,000	278	329	439	455	**478**
Total	5,102	5,743	6,326	7,268	**7,523**

Lending Authorized – Classification by Size – Amount Authorized

for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
$100,000 or less	116	138	156	210	**216**
Over $100,000 to $250,000	219	247	247	235	**244**
Over $250,000 to $500,000	317	332	351	337	**370**
Over $500,000 to $1,000,000	343	373	390	435	**457**
Over $1,000,000	538	649	888	866	**980**
Total	1,533	1,739	2,032	2,083	**2,267**

BDC Venture Capital

In fiscal 2005, BDC Venture Capital had a record year in both the number and the value of transactions completed. However, the strategy of helping early-stage businesses commercialize their technological innovations is risky even though it is part of BDC's mandate to support these businesses at every stage of their growth. The early stage nature of BDC's venture capital portfolio, which makes divestment more difficult, combined with a high but normal rate of failing businesses led to consequent losses in fiscal 2005. Nonetheless, the injection of $250 million by the shareholder in fiscal 2005 will enable BDC Venture Capital to make new investments, particularly at the seed level and in venture capital funds to bring added support to the young but promising companies in its portfolio.

Number of Venture Capital Direct Investments Authorized – Classification by Stage of Development

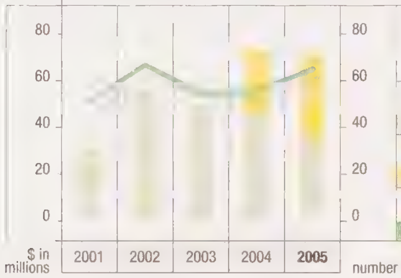
for the year ended March 31, 2005

1	Start-up/Seed	59%
2	Development	29%
3	Expansion	9%
4	Turnaround	3%

BDC Subordinate Financing

Subordinate financing is a hybrid instrument incorporating elements of both debt financing and equity financing. It is offered to innovative and fast-growing businesses with promising market niches. Over the years, BDC has become a leader in subordinate financing transactions in Canada, from $250,000 to $5 million. In addition, the $300-million strategic alliance that BDC signed in fiscal 2004 with *Caisse de dépôt et placement du Québec* (CDP) reaffirmed BDC's preeminent position on the Canadian subordinate financing market. In fiscal 2005, BDC's total dollar value of subordinate financings authorized (including the CDP portion) totalled $72 million.

Subordinate Financing Authorized for the years ended March 31



	2001	2002	2003	2004	2005
Amount - BDC portion	31	56	49	48	**36**
Amount - CDP portion	-	-	-	25	**36**
Number authorized	51	67	55	56	**66**

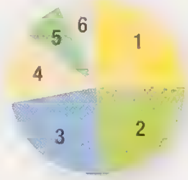
BDC Consulting

Consulting services represent an integral part of BDC's value-based client relationships and these services continued to be in high demand across the country in fiscal 2005 with about 3,000 consulting projects. All of the services offered by BDC Consulting rest on one main objective: to help maximize the management capabilities of Canadian entrepreneurs. In fiscal 2005, strategic/business planning made up a quarter of the total consulting revenues, slightly more than in fiscal 2004, whereas financial advice and operations management were among the top services in both fiscal 2004 and 2005. In addition, the services offered to clients by BDC Consulting are not only diversified, they also respond to client needs as shown by the excellent 86% client satisfaction rate for BDC Consulting services in fiscal 2005.

Consulting Revenues by Service Type
for the year ended March 31, 2004

1	Quality assurance	**21%**
2	Financial	**21%**
3	Strategic/business planning	**20%**
4	Operations management	**20%**
5	Human resources	**10%**
6	Marketing	**8%**

Consulting Revenues by Service Type
for the year ended March 31, 2005



1	Strategic/business planning	**25%**
2	Financial	**24%**
3	Operations management	**23%**
4	Quality assurance	**13%**
5	Marketing	**8%**
6	Human resources	**7%**

BDC Connex®

Clients of BDC Financing can use BDC Connex®, a secure Web site where they are offered secure access to their account information (debit notices, past payments and interest rates) and to effective business tools. BDC Connex also handles many alliances and partnerships. In fiscal 2005, more than 50% of the transactions processed by BDC Connex resulted from BDC partnership agreements with Community Futures Development Corporations (CFDCs).

BDC: STRENGTHENING ITS CLIENT CONNECTION

BDC makes a concerted effort to understand the characteristics and evolving needs of its clients. This knowledge forms the basis of BDC's approach to reaching new clients, maintaining value-added relationships with them and accompanying them during each stage of their development. This approach entails the following steps.

- Targeting (researching, understanding, prioritizing)
- Adopting a systematic and structured approach for reach and growth
- Ensuring that each interaction with BDC adds value to clients
- Tracking results and measuring successes
- Improving approaches and processes based on findings through on-going coaching

This comprehensive client-centric approach takes into account the specific needs of clients, their industry sector, market segment, place or region of business and entrepreneurial profile.

Women Entrepreneurs

Women-owned businesses have become a driving force behind Canada's economy. Acknowledging the fact that businesses managed by women are growing at twice the national average, BDC has significantly increased its lending commitment to women entrepreneurs over time. The part of BDC's portfolio that is dedicated to women-owned businesses has increased steadily to reach $1.6 billion in fiscal 2005. This comprises more than 5,500 businesses principally owned and controlled by women, twice as many as 10 years ago. BDC also created a $25-million quasi-equity fund in fiscal 2004 that is designed to increase the availability of financing for fast-growing women-owned businesses.

As at March 2005, BDC had already authorized $11.9 million of the $25 million fund for women in business. The majority of the projects financed provided capital to support expanding businesses. Other projects included financing management buyouts and intergenerational transfers of ownership.

In addition to financial support, BDC backs initiatives throughout Canada aimed at promoting women entrepreneurship, such as the Rotman Canadian Woman Entrepreneur of the Year Awards. During fiscal 2005, BDC actively contributed to creating the third Canadian chapter of the Women Presidents' Organization, a North American organization that brings together women entrepreneurs who run successful businesses.

Aboriginal Entrepreneurs

Aboriginal business clients are active in most sectors of the economy. Beyond BDC's lending to Aboriginal businesses, which experienced a significant increase during fiscal 2005, BDC was involved in many activities in the past year, such as the Aboriginal Business Development Fund that combines financing with management training and ongoing mentorship, consulting services including ISO certification and strategic planning, as well as presentations to Aboriginal entrepreneurs on how to approach lending institutions.

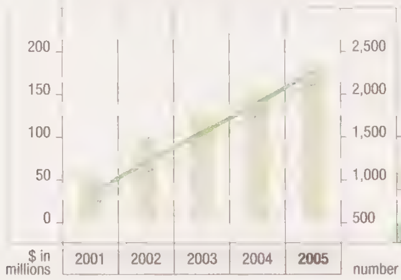
In fiscal 2005, the E-Spirit Aboriginal Youth Business Plan Competition was held for the fourth consecutive year and the winners were announced in May 2004. Since it was launched by BDC in 2001, this Internet-based initiative has enabled more than 2,000 Aboriginal students across Canada, from grades 10 to 12, to complete a business plan using online modules. This initiative underlines BDC's commitment to encouraging future Aboriginal entrepreneurs.

Social Economy
BDC provides financial support to social economy businesses, such as not-for-profit organizations and cooperatives. In order to increase its commitment to this emerging segment of the economy and in accordance with the federal government's objective of encouraging the development of the social economy, BDC is presently developing a new strategy for this target market that will be finalized during fiscal 2006.

[illegible] MEANS TO SUPPORT CANADIAN ENTREPRENEURSHIP

Entrepreneurship Centers
More than 60% of BDC's financing portfolio is made up of loans of less than $250,000 and the 19 Entrepreneurship Centers established everywhere in Canada reaffirm BDC's commitment towards smaller businesses. The mission of Entrepreneurship Centers is to offer small businesses customized solutions, including innovative financing and sound consulting advice, to help them become more competitive in their target markets. In fiscal 2005, BDC's Market Impact Strategy, which offers mentoring programs to start-up businesses, was implemented in 10 Entrepreneurship Centers across Canada.

Entrepreneurship Center Authorizations for the years ended March 31



	2001	2002	2003	2004	**2005**
Amount	58	101	129	154	**183**
Number authorized	855	1,232	1,568	1,909	**2,293**

Strategic Partnerships
To take its mandate even further, BDC makes agreements with organizations that share similar objectives in regard to Canadian small and medium-sized businesses. During fiscal 2005, BDC partnered with Desjardins Group to create the *Chaire en gestion des produits dérivés* ("derivatives management chair") at *Université du Québec à Montréal* (UQÀM). This type of initiative is important for entrepreneurs who have to deal with fluctuations in exchange rates, interest rates and the price of raw materials on a daily basis. This Chair, for which BDC has earmarked $375,000 over five years, will help train specialists who will assist entrepreneurs in understanding and managing their financial risks better.

In 2005, BDC strengthened its partnership with CFDCs across Canada by signing many partnership agreements with these organizations. CFDCs and BDC share the same passion for small and medium-sized businesses and support the initiatives of entrepreneurs on a local and regional level.

Small Business Week®

2004 marked the 25th anniversary of Small Business Week®, an initiative that pays tribute to the accomplishments of Canadian entrepreneurs. Over the years, Small Business Week has become the annual event par excellence for Canadian entrepreneurs. The theme for 2004 was: "YOU'RE THE POWER behind the Canadian economy, let's share the energy!". With the co-operation of the Canadian Chamber of Commerce and the support of local and national partners, about 360 activities which gathered more than 20,000 people took place throughout the country between October 17 and 23, 2004.

Small Business Week also includes other initiatives, such as the Young Entrepreneur Awards and BDC Forum. The Young Entrepreneur Awards are given each year to young entrepreneurs between the ages of 19 and 35 to recognize their innovative spirit and business acumen, with one award assigned for each province and territory. The 2004 Young Entrepreneur Awards ceremony was held on October 19, 2004, in London, Ontario. On this occasion, three other prizes were also awarded: the Laurentian Bank Export Achievement Award, the Bell Creative Mind Award and BDC's Ongoing Achievement Award.

Winners of the 2004 Young Entrepreneur Awards were also invited to attend the 3rd edition of BDC Forum. During this one-day activity, young entrepreneurs had the opportunity to exchange ideas with BDC senior executives, distinguished academics and prominent business leaders. Winners were also offered information sessions by BDC Consulting professionals.

BDC Online

With BDC's Web site, Canadian entrepreneurs are only a few clicks away from a full spectrum of services, including business start-up advice, export financing and many other relevant topics. In addition, Web users may consult free of charge more than 100 articles in which they will find sound advice to help them maximize the management of their business. In fiscal 2005, more than one million visits were recorded on BDC's Web site.

Profit$ Newspaper

BDC's *Profit$* newspaper is published twice a year and distributed to entrepreneurs across the country. Each issue covers a different theme of interest to entrepreneurs, useful business tips and BDC client success stories. *Profit$* is intended for every industry sector, from manufacturing and tourism to knowledge-based businesses.

BDC: EMPLOYEES MAKE THE DIFFERENCE

BDC employees represent the soul of the organization and the main reason behind its success. In fiscal 2005, they responded to clients' requirements on a timely and efficient basis, and as such they strongly contributed to the outstanding client satisfaction rate of 93%. BDC understands that committed employees are a tremendous asset for the entire organization. Through its human resources strategies, BDC fosters employee engagement by ensuring continuous professional learning, promoting individual performance and developing leadership skills.

During fiscal 2005, BDC reaffirmed its core values through a consultative process that brought more than 1,200 employees out of a total of 1,400 to take part in 27 workshops held across Canada to express their views, concerns and recommendations. The high participation rate for this initiative is an indication of how much employees care about BDC's destiny. After some very stimulating discussions, consensus was reached on five core values: ethics; client connection; team spirit; accountability; and work/life balance.

These core values confirm what BDC is and what underlies its actions. These values also strengthen and enrich a unique organizational culture that has constantly reinvented itself for the past 60 years. The values that all BDC employees have in common also benefit clients because the business solutions provided to them are imbued with these values. In the final analysis, BDC's mandate is easier to carry out when it is based on sound and sustainable values that all employees share.

Atlantic Provinces

Atlantic Canada's economy continued to expand in 2004. Energy remained one of the principal industry sectors given the importance of oil and gas, as well as refined petroleum products and electric power production. Atlantic export of goods to Asia – particularly China where exports have grown tenfold in the last decade – totalled more than $1.2 billion in 2004 and were mostly made up of unprocessed fish products. Increases in the manufacturing sector combined with renewed strength in retail trade and housing also contributed to the overall growth.

MICHEL BOURRET
SENIOR VICE PRESIDENT, OPERATIONS
ATLANTIC AND QUEBEC REGION

Management	Branches	
Ross Miller Vice President and Area Manager Newfoundland and Labrador	Corner Brook Grand Falls	St. John's*
Craig Levangie Vice President and Area Manager Nova Scotia	Halifax* Sydney	Truro Yarmouth
Claude Paré Vice President and Area Manager New Brunswick and Prince Edward Island	Bathurst (N.B.) Charlottetown (P.E.I.) Edmundston (N.B.)	Fredericton (N.B.) Moncton* (N.B.) Saint John (N.B.)

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province

for the years ended March 31

2005 Objectives			2005		2004	
Number Authorized	Net amount ($000)		**Number Authorized**	**Net amount ($000)**	Number Authorized	Net amount ($000)
315	$ 85,000	Newfoundland and Labrador	**427**	**$ 84,494**	358	$ 85,979
25	8,500	Prince Edward Island	**23**	**6,461**	36	10,922
230	60,000	Nova Scotia	**240**	**55,937**	164	30,500
245	74,500	New Brunswick	**334**	**83,118**	261	62,543
815	$ 228,000	Total	**1,024**	**$ 230,010**	819	$ 189,944

Commitment to Lending Clients – Classification by Province

as at March 31

2005 Objectives			2005		2004	
Number of clients	Amount ($000)		**Number of clients**	**Amount ($000)**	Number of clients	Amount ($000)
1,315	$ 362,574	Newfoundland and Labrador	**1,300**	**$ 358,374**	1,147	$ 332,879
145	53,774	Prince Edward Island	**134**	**49,720**	137	50,441
715	202,184	Nova Scotia	**714**	**201,873**	648	177,313
1,005	331,868	New Brunswick	**998**	**329,441**	932	296,966
3,180	$ 950,400	Total	**3,146**	**$ 939,408**	2,864	$ 857,599

Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 1,300	Revenue ($000)	**$ 1,886**	$ 1,369
n.a.	Percentage of repeat business served	**27%**	36%

Quebec

The Quebec economy grew by 2.2% in 2004. This increase in real GDP, although modest, was the result of a strong U.S. economy combined with robust domestic demand, particularly in the housing industry. In 2004, the housing market in Quebec increased by a staggering 15%. Even though the manufacturing sector posted excellent results in 2004, sharp declines in both the pharmaceutical and aircraft industries had a detrimental impact on total manufacturing output which was only up 0.4% compared to the previous year.

MICHEL BOURRET
SENIOR VICE PRESIDENT, OPERATIONS
ATLANTIC AND QUEBEC REGION

Management	Branches	
Liliane Blais Vice President and Area Manager Eastern Quebec	Chaudière-Appalaches Chicoutimi	Québec City* Rimouski
France de Gaspé Beaubien Vice President and Area Manager Southern Quebec	Drummondville	Longueuil*
Alain Gilbert Vice President and Area Manager Northern Quebec	Lower Laurentians/ Lanaudière	Laval* Rouyn-Noranda
Thierry Limoges Vice President and Area Manager Montréal	De Maisonneuve Place Ville Marie*	Saint-Léonard
Jean-Robert Lacasse Vice President and Area Manager Western Montréal	Pointe-Claire	Saint-Laurent*
France Bergeron Vice President and Area Manager Regional Quebec	Gatineau Saint-Jérôme	Sherbrooke Trois-Rivières

* Location of Entrepreneurship Centers

Lending Authorized

for the years ended March 31

2005 Objectives: Number Authorized	2005 Objectives: Net amount ($000)		2005: Number Authorized	2005: Net amount ($000)	2004: Number Authorized	2004: Net amount ($000)
2,430	$ 831,000	Quebec	**2,682**	**$ 881,979**	2,776	$ 873,830

Commitment to Lending Clients

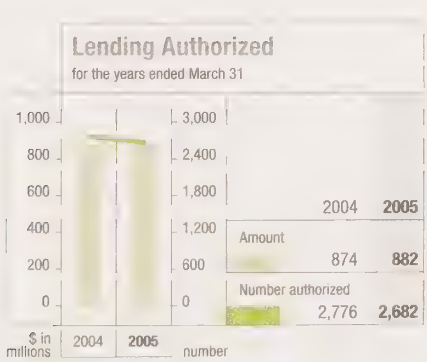
as at March 31

2005 Objectives: Number of clients	2005 Objectives: Amount ($000)		2005: Number of clients	2005: Amount ($000)	2004: Number of clients	2004: Amount ($000)
8,427	$ 3,256,332	Quebec	**8,503**	**$ 3,558,014**	7,882	$ 3,310,462

Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 7,900	Revenue ($000)	**$ 8,592**	$ 9,190
n.a.	Percentage of repeat business served	**52%**	59%



Ontario

Exports increased by 3.6% in Ontario in 2004. These excellent results were mainly attributable to a 9.5% jump in automobile manufacturing. Unlike the trend observed in most other provinces, investment in residential structures grew by only 4.2%, which was half the national average. However, business investment in machinery and equipment rose sharply by 7.4%, a performance that may be explained by a strong Canadian dollar that made imports for these products more affordable.

JACQUES LEMOINE
SENIOR VICE PRESIDENT, OPERATIONS
ONTARIO REGION

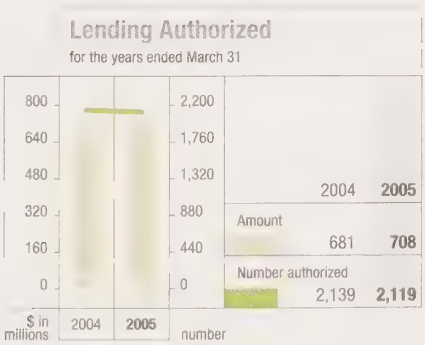
Management	Branches	
Vice President and Area Manager Eastern and Northern Ontario	Kingston	Ottawa*
Vice President and District Manager Northern Ontario	North Bay Sault Ste. Marie Sudbury	Thunder Bay Timmins
Vice President and District Manager Southern Ontario	London* Owen Sound	Stratford Windsor
Vice President and Area Manager Toronto	Barrie Toronto*	Toronto Central Toronto North
Vice President and Area Manager Toronto East	Durham Markham	Peterborough Scarborough*
Vice President and Area Manager Mississauga	Brampton	Mississauga*
Vice President and Area Manager Halton-Niagara	Halton* Hamilton	Kitchener St. Catharines

* Location of Entrepreneurship Centers

2005 Objectives		Lending Authorized for the years ended March 31	2005		2004	
Number Authorized	Net amount ($000)		**Number Authorized**	**Net amount ($000)**	Number Authorized	Net amount ($000)
2,212	$ 855,550	Ontario	**2,119**	**$ 707,500**	2,139	$ 681,374

2005 Objectives		Commitment to Lending Clients as at March 31	2005		2004	
Number of clients	Amount ($000)		**Number of clients**	**Amount ($000)**	Number of clients	Amount ($000)
7,865	$ 3,084,277	Ontario	**7,497**	**$ 2,939,593**	7,126	$ 2,738,675

2005 Objective	Consulting for the years ended March 31	2005	2004
$ 6,400	Revenue ($000)	**$ 4,789**	$ 6,052
n.a.	Percentage of repeat business served	**45%**	49%



Prairies, Northwest Territories and Nunavut

All Prairie provinces recorded excellent economic results in 2004. Manitoba's booming housing market and strong exports had a positive impact on employment. High energy prices and continued exploration and drilling activity in Alberta, as well as consistently high domestic and foreign demand for energy and potash in Saskatchewan, fueled the economies of these two provinces in 2004. Diamond mining continued to dominate the economy of the Northwest Territories this past year and had a significant impact in all sectors. Despite a depleting mining and oil and gas extraction industry, Nunavut's economy benefited from a 65% increase in non-residential construction, particularly in health care and school infrastructures.

Management	Branches	
Wellington Holbrook Vice President and Area Manager Manitoba and Saskatchewan	Brandon (Man.) Kenora (Ont.) Regina (Sask.)	Saskatoon (Sask.) Winnipeg* (Man.) Winnipeg West
Edward Straw Vice President and Area Manager Southern Alberta	Calgary (Alta.) Calgary North* (Alta.) Calgary South (Alta.)	Cranbrook (B.C.) Lethbridge (Alta.)
Steve Zink Vice President and Area Manager Northern Alberta and Northwest Territories	Edmonton* (Alta.) Edmonton South (Alta.) Fort St. John (B.C.)	Grande Prairie (Alta.) Red Deer (Alta.) Yellowknife (N.W.T.)

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province and Territory

for the years ended March 31

2005 Objectives: Number Authorized	2005 Objectives: Net amount ($000)		2005: Number Authorized	2005: Net amount ($000)	2004: Number Authorized	2004: Net amount ($000)
176	$ 39,300	Manitoba	**230**	**$ 55,917**	197	$ 40,320
132	29,850	Saskatchewan	**108**	**22,835**	89	19,039
616	152,500	Alberta	**549**	**178,158**	541	123,653
24	7,000	Northwest Territories and Nunavut	**23**	**6,436**	15	6,222
948	$ 228,650	Total	**910**	**$ 263,346**	842	$ 189,234

Commitment to Lending Clients – Classification by Province and Territory

as at March 31

2005 Objectives: Number of clients	2005 Objectives: Amount ($000)		2005: Number of clients	2005: Amount ($000)	2004: Number of clients	2004: Amount ($000)
518	$ 145,534	Manitoba	**571**	**$ 160,307**	504	$ 131,671
471	115,674	Saskatchewan	**437**	**107,359**	452	111,045
1,612	540,101	Alberta	**1,636**	**548,233**	1,502	487,838
84	42,833	Northwest Territories and Nunavut	**65**	**33,243**	67	33,938
2,685	$ 844,142	Total	**2,709**	**$ 849,142**	2,525	$ 764,492

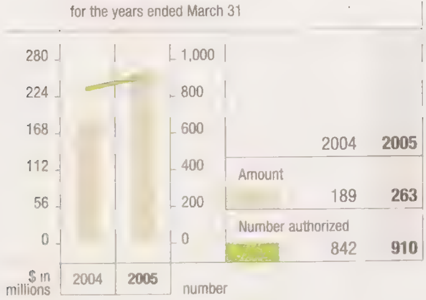
Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 2,100	Revenue ($000)	**$ 2,183**	$ 1,911
n.a.	Percentage of repeat business served	**42%**	45%

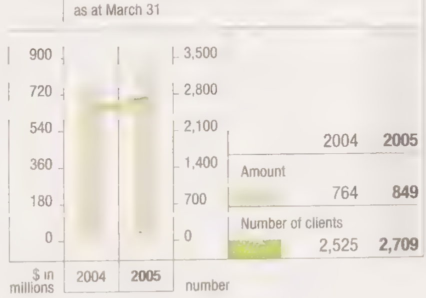
Lending Authorized

for the years ended March 31



Commitment to Lending Clients

as at March 31



British Columbia and Yukon

British Columbia's GDP went up 3.9% in 2004, the best performance among all Canadian provinces. Wood product manufacturing and residential building construction drove the provincial economy which was very strong. International imports grew by 10% while there was strong foreign demand for forestry and logging products, as well as mining products. Yukon's economy performed almost as well, with a 3.7% growth in 2004, the territory's best result in three years. The mining industry, particularly gold, led the way recording an impressive 70% increase. Other double-digit results included goods-producing industries with a 27% increase and government investment, which grew by 32%.

Management	Branches	
eiser Vice President and Area Manager B.C. North and Interior	Kamloops (B.C.) Kelowna* (B.C.) Prince George (B.C.)	Terrace (B.C.) Whitehorse (Y.T.)
Bennie Vice President and Area Manager Vancouver	Campbell River Langley Nanaimo North Vancouver	Surrey Vancouver* Victoria

* Location of Entrepreneurship Centers

Lending Authorized – Classification by Province and Territor

for the years ended March 31

2005 Objectives Number Authorized	2005 Objectives Net amount ($000)		2005 Number Authorized	2005 Net amount ($000)	2004 Number Authorized	2004 Net amount ($000)
771	$ 183,250	British Columbia	**768**	**$ 177,768**	675	$ 144,802
24	3,250	Yukon	**20**	**5,985**	17	3,463
795	$ 186,500	Total	**788**	**$ 183,753**	692	$ 148,265

Commitment to Lending Clients – Classification by Province and

as at March 31

2005 Objectives Number of clients	2005 Objectives Amount ($000)		2005 Number of clients	2005 Amount ($000)	2004 Number of clients	2004 Amount ($000)
2,464	$ 713,564	British Columbia	**2,427**	**$ 702,760**	2,310	$ 660,998
79	23,021	Yukon	**87**	**25,229**	89	21,796
2,543	$ 736,585	Total	**2,514**	**$ 727,989**	2,399	$ 682,794

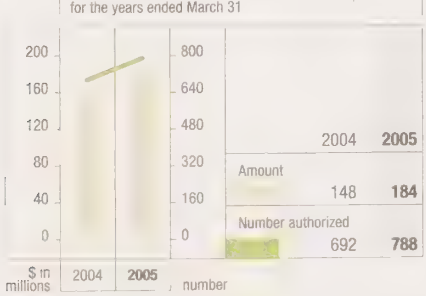
Consulting

for the years ended March 31

2005 Objective		2005	2004
$ 1,300	Revenue ($000)	**$ 1,474**	$ 1,484
n.a.	Percentage of repeat business served	**35%**	31%

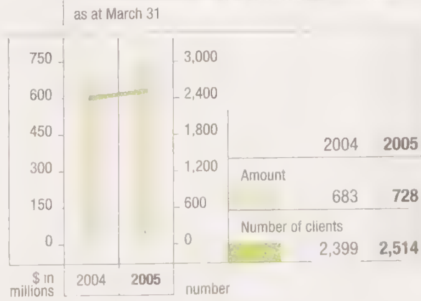
Lending Authorized

for the years ended March 31



Commitment to Lending Clients

as at March 31



Performance and Annual Objectives

The following table summarizes BDC's performance and objectives from 2004 through 2006. Each measurement is discussed in further detail under its appropriate heading.

BDC PERFORMANCE AND OBJECTIVES FROM FISCAL 2004 THROUGH 2006

Performance Measurements	F 2004 Actual	F 2005 Objectives	F 2005 Actual	F 2006 Objectives
Clients				
Client satisfaction	91%	89%	93%	89%
Employees				
Employee commitment	77%	77%	74%	78%
Efficiency				
Efficiency ratio	48.7%	47.4%	48.5%	47.4%
Financial sustainability				
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%
BDC Consulting revenues	$20.0 M	$19.0 M	$18.9 M	$21.0 M
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

Following is a discussion of BDC's actual performance as compared to its annual objectives, by performance driver.

CLIENTS

Corporate objective: To create a unique and valued relationship with Canadian entrepreneurs by supporting the creation of their businesses and accompanying their growth.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Client satisfaction	91%	89%	93%	89%

BDC's fiscal 2005 target client satisfaction rate was set at 89%, 2% lower than fiscal 2004 results. At the time it set the objective, BDC had decided to raise the risk profile of its portfolio during 2005 which would normally have resulted in higher average pricing of loans. Inasmuch as pricing is a driver of client satisfaction, BDC expected a negative reaction to higher pricing and, consequently, a lower client satisfaction level.

However, BDC was able to reach its loan objectives and increase its offering of higher risk solutions while maintaining a balance in its pricing. As a result, BDC's client satisfaction level rose to a higher level than expected.

IMPROVING SATISFACTION THROUGH STRONG CLIENT CONTACT

BDC is present in every region of Canada and its decision-making process is decentralized, enabling more than 95% of all loans to developing businesses to be authorized at the local or regional level.

COMMITTED TO LENDING CLIENTS / CLASSIFICATION BY PROVINCE OR TERRITORY

as at March 31	2005		2004	
	Number of clients	**Amount ($ in millions)**	Number of clients	Amount ($ in millions)
Newfoundland and Labrador	**1,300**	**$ 358**	1,147	$ 333
Prince Edward Island	**134**	**50**	137	50
Nova Scotia	**714**	**202**	648	177
New Brunswick	**998**	**330**	932	297
Quebec	**8,503**	**3,558**	7,882	3,310
Ontario	**7,497**	**2,940**	7,126	2,739
Manitoba	**571**	**160**	504	132
Saskatchewan	**437**	**107**	452	111
Alberta	**1,636**	**548**	1,502	488
Northwest Territories and Nunavut	**65**	**33**	67	34
British Columbia	**2,427**	**703**	2,310	661
Yukon	**87**	**25**	89	22
Total	**24,369**	**$ 9,014**	22,796	$ 8,354

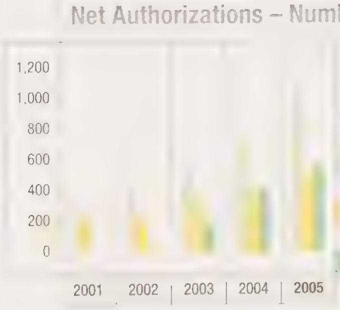
There are several possible reasons for this excellent client satisfaction rate achieved in fiscal 2005. Apart from its decentralized decision-making loan structure, BDC's business solutions significantly increased in fiscal 2005, which meant that they responded well to client needs. The flexibility of BDC's client-centric approach, which enables it to meet specific client requirements, also played a role in this 93% client satisfaction rate.

Furthermore, the signing of alliances between BDC and other partners has an impact on client satisfaction. For instance, in fiscal 2005, BDC signed many other partnership agreements with CFDCs across the country, which had the effect of strengthening support for the initiatives of entrepreneurs at the local and regional level. In addition, the client satisfaction rate for BDC Consulting clients reached an all-time high of 86% in fiscal 2005. Such a result combined with the overall 93% client satisfaction rate demonstrates that BDC clients are overwhelmingly satisfied with the services provided as a whole.

CLIENT-FOCUSED SOLUTIONS

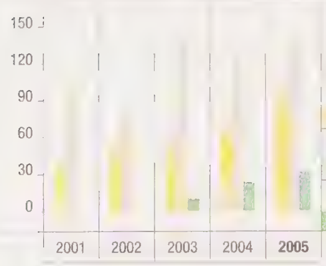
BDC Financing and BDC Venture Capital operations aim directly at filling the financing gaps in the developing business sector of the economy. For the fifth straight year, BDC increased the risk profile of its portfolio by continuing to focus on the small business market where it provides loans of under $250,000 that are often unsecured. In particular, BDC expanded the scope of Productivity Plus Loans (PPLs) and Innovation Financing over the past two years.

Net Authorizations – Number for the years ended March 31



	2001	2002	2003	2004	**2005**
Innovation Loans	326	436	549	745	**1,079**
PPLs	217	247	350	403	**493**
Co-Vision Loans	-	-	202	436	**562**

Net Authorizations – Amount for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Innovation Loans	37	48	55	63	**91**
PPLs	98	85	141	129	**141**
Co-Vision Loans	-	-	11	24	**32**

Innovation Financing, of up to $250,000, provides working capital loans to finance growth and the development of innovation strategies. The Innovation Financing commitment outstanding increased by 30% to $193 million as at March 31, 2005. The total dollar value of Innovation Financing authorized increased to $91 million compared to $63 million in 2004.

Productivity Plus Loans (PPLs) provide financing to developing firms for new or used equipment and machinery that are geared to improve the productivity of the business. Loans are provided to a maximum of $5 million and include 100% financing to purchase equipment and tooling, to which a further 25% is added for costs related to installing and assembling the equipment, as well as training employees. The number of PPL financings authorized increased by 22% to 493 in fiscal 2005. The total dollar value increased to $141 million compared to $129 million in fiscal 2004.

Co-Vision Loans provide financing of up to $100,000 for start-up businesses that require working capital and new or used equipment. BDC increased the number of Co-Vision financings authorized by 29% to 562 in fiscal 2005. The total dollar value of these small-sized financings increased to $32 million compared to $24 million in fiscal 2004.

Term loans offer a larger percentage of asset financing extended over a longer term. Often a portion of the loan can be unsecured.

BDC Venture Capital addresses market gaps which hinder the creation and subsequent development of innovative technology businesses in Canada. It is structured as follows.

- The Technology Seed Investment Group
- Four internal specialized groups designed to fill the early-stage gap: Life Sciences, Information Technology, Telecommunications, and Advanced Technologies
- A fund-investing group set up to support private venture capital fund managers and to increase institutional investing

Subordinate Financing is a hybrid of equity and debt financing targeted at thriving, fast-growing businesses that do not have the tangible security required by traditional lenders. In fiscal 2004, BDC extended its reach in the subordinate financing market when it signed a $300-million strategic alliance with *Caisse de dépôt et placement du Québec* (CDP). Through the alliance, BDC offers subordinate financing to Canadian companies in amounts ranging from $250,000 to $10 million, with a focus on first-round financings of under $3 million. The BDC-CDP alliance participated in over 60 of these quasi-equity financings throughout Canada during fiscal 2005. BDC's total dollar value of subordinate financings authorized during fiscal 2005 (including CDP portion) totalled $72 million. The total commitment outstanding (including CDP portion) stood at $230 million as at March 31, 2005.

By increasing the availability of small-sized loans, venture capital investments to early-stage technology companies and subordinate financing to developing businesses, BDC is directly addressing the market gaps in accordance with its mandate. BDC increases client satisfaction by filling the financing void with higher risk, small-sized loans and equity investments that provide developing businesses with the opportunity to grow and succeed.

EMPLOYEES

Corporate objective: To foster a culture of engagement, learning and growth among its employees.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Employee commitment	77%	77%	74%	78%

At BDC, we believe there is a direct correlation between employee engagement, client satisfaction and business performance. The more engaged employees are with respect to BDC, the more likely they are to provide excellent service to the client, which in turn enables BDC to reach its corporate objective in that regard. Between fiscal 2001 and fiscal 2004, the rate of employee commitment rose from 63% to 77%. During the same period, client satisfaction rose from 88% to 91% and BDC loans outstanding rose in value from $5.4 billion to $7.5 billion.

During fiscal 2005, BDC employee commitment fell to 74% compared to 77% in fiscal 2004. As in past years, an analysis of these results is under way and action plans will address any relevant issues.

BDC systematically aligns human resource practices with business objectives. The Total Rewards program ensures better alignment of BDC compensation and benefits practices with the market, and improves BDC's ability to retain talent. Individual performance and contribution are increasingly recognized.

Through its Human Resources strategies, BDC strives to increase the level of engagement of employees by ensuring they are supported by high-calibre and effective leaders, and the right people management practices. Employees are encouraged to take greater ownership of their learning and professional development. Greater diversity and open and honest communications are highly valued. Listening and responding to what employees have to say is a part of BDC's culture.

High-calibre and effective leadership is a key element in the ability of the organization to support its employees. During fiscal 2005, BDC defined a set of leadership competencies that formed the basis of the leadership program. A pilot program for new leaders will be launched during fiscal 2006.

In fiscal 2005 BDC also launched an organization-wide initiative to engage the participation of all BDC employees in the reaffirmation of BDC's core values, which are: ethics, client connection, team spirit, accountability and work/life balance. BDC is committed to ensuring that all of its policies and programs are aligned with these core values.

EFFICIENCY

Corporate objective: To establish effective and efficient operating and administrative expenses to net interest income.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Efficiency ratio	48.7%	47.4%	48.5%	47.4%

BDC measures efficiency by its efficiency ratio, which is comprised of operating and administrative expenses compared to net interest income and other income. A lower ratio indicates better internal efficiency. BDC's efficiency ratio was 48.5% in fiscal 2005, compared to 48.7% in fiscal 2004 and higher than the target of 47.4%. While operating expenses were in line with objectives, net interest income and other income were reduced by lower than expected loan disbursements and higher than expected loan prepayments.

BDC is continuously seeking ways to increase efficiency and deliver quality services through enhanced internal processes. Over the past years, BDC has made significant improvements to its business development, loan authorization, disbursement and administration processes.

The new processes transferred decision-making to the branch level, and have optimized BDC's responsiveness to local market needs and individual client requirements. The gains made since that time are concrete.

- 95% of all loans are now authorized at the regional level
- Three to four days per week are now dedicated to developing new relationships with prospective clients
- Loan administration streamlining has allowed for greater time and flexibility for account managers to build solid relationships with their clients
- Significant volume gains have been realized per account manager in terms of both numbers and dollars

BDC continues to seek ways to reach more developing businesses across the country, to supplement its small business network and to leverage its resources. BDC's partnerships with more than 150 CFDCs are a good example of how BDC is extending its reach in a promising target market. The fact that BDC and CFDCs share the same objectives towards SMEs contributes greatly to supporting the initiatives of entrepreneurs at the local and regional level.

BDC Connex – BDC's "virtual" branch – is now used to handle many alliances and partnerships, as well as for businesses that choose to apply for BDC services using channels different from the formal network. In fiscal 2005, BDC Connex processed over 200 transactions valued at $28 million (net). More than 50% of these transactions resulted from BDC partnerships with CFDCs.

During fiscal 2005, BDC completed the development and implementation of its Customer Relationship Evolving Manager (CREM), an information systems tool that allows for more accurate information on prospects and clients. CREM enhances BDC's understanding of market segments and the needs of prospects and clients and enables BDC to be more systematic and efficient in dealing with them. With CREM, BDC is able to refine its service offerings and improve working relationships between branch staff and professionals in their interaction with clients. CREM will be fully deployed in 2006-2007.

A benchmark of BDC Information Technology capabilities was performed during fiscal 2005. The conclusion of this assessment is that BDC's current systems meet BDC's business requirements and the quality of services provided contributes to a high degree of satisfaction among internal users. By helping BDC employees, consultants and clients interact more effectively, BDC's systems and its Web portals have contributed to stronger relationships with the client and a more effective ability to respond to clients' needs.

FINANCIAL SUSTAINABILITY

Corporate Objective: To be profitable in order to grow while fulfilling BDC's public policy mandate.

Performance Measurements	F 2004 Actual	F 2005 Objectives	F 2005 Actual	F 2006 Objectives
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B
Efficiency ratio	48.7%	47.4%	48.5%	47.4%
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%
BDC Consulting revenues	$20.0 M	$19.0 M	$18.9 M	$21.0 M
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

Each of the above performance measures will be discussed in detail under the appropriate heading in the financial results discussion that follows on page 35 of Management's Discussion and Analysis (MD&A).

However, before analyzing each performance measure, it is important to understand the integrated risk management structure that BDC has put in place to ensure responsible achievement of these objectives.

Integrated Risk Management

BDC has adopted Integrated Risk Management policies and procedures to support its financial sustainability.

Sound risk management practices are designed to help BDC achieve its objectives and execute its strategies consistent with its mandate. BDC has well-established processes for evaluating and managing its business risks. Overall business risks are grouped into three risk categories: credit, market and operational. BDC considers all of its business risks on an integrated basis when making key operating decisions. For example, last year Board and Management approved a market strategy to support the growth of mid-sized Canadian businesses. The analysis leading to and supporting the formulation of this strategy was conducted in the context of an assessment of the impact that such a market strategy could have on BDC's mandate, business model, capital adequacy and its human resources capabilities. Board and Management concluded that the risks were identified and mitigated and that sufficient controls were in place to implement the strategy. At BDC, Risk Management is integrated into strategic and corporate planning through a well-defined structure and clear accountability.

RISK MANAGEMENT STRUCTURE AND RESPONSIBILITIES

Board of Directors

- Approve broad risk policy concepts, risk appetite and strategies
- Ensure risk management and control framework is effective
- Review portfolio and major risks and management plans
- Review capital adequacy

Senior Management Team

- Establish risk and control framework
- Identify, assess, mitigate, measure and report risk
- Identify major risks and implement appropriate action plans
- Recommend risk management policies and strategies
- Identify risk owners and responsibilities and allocate resources

Asset and Liability Committee

Oversee Treasury funding activities and compliance with the Treasury Risk Policy, including matching of assets and liabilities

Credit and Investment Committee

Review and approve large loan and investment transactions or recommend them to BDC's Credit and Investment Committee of the Board

Strategic Business Council

Define target markets and gaps. Integrate management of projects affecting credit risk management and operations

Portfolio Outlook

Review loans portfolio concentrations, risk migration, overall risk assessment and quality and recommend actions

AUDIT AND INSPECTION

- Review branches and corporate units for compliance with policies and procedures

BOARD OF DIRECTORS

Through the annual Corporate Plan exercise and its annual strategic review, the Board of Directors is involved in the assessment of BDC's top business risks and can voice its opinion on Management's plans to mitigate and address these risks. Management reports to the Board on a quarterly basis on progress made in the action plans.

In addition, the Board receives regular risk reports from Management about BDC's exposure to emerging risks. The Integrated Risk and Portfolio Management Group, which reports directly to the Executive Vice President, Integrated Risk and Technology Management, coordinates these activities. It also manages the loan portfolio and determines BDC's asset and liability positions, thus supporting risk management of key operational groups such as Loans, Venture Capital, Credit Risk Management, Treasury and others.

SENIOR MANAGEMENT

The Senior Management Team is responsible for managing all risks. Each year, identification of business risks is reassessed through the Business Functional Unit Plan. Each unit is responsible for identifying the risks associated with achieving its objectives and running the business. These risks are compiled into a Corporate Integrated Risk Management Plan and Management identifies the top risks for BDC. The Board reviews these risks along with the action plan.

ASSET AND LIABILITY COMMITTEE

The Asset and Liability Committee, which includes senior officers of BDC's risk management function, periodically reviews the policies governing credit, market and liquidity risks related to BDC's treasury operations. The Committee's policies are approved by the Board and ensure financial risks are responsibly managed to safeguard BDC's capital. These policies comply with Canada's Department of Finance's financial risk management guidelines and industry best practices.

CREDIT AND INVESTMENT COMMITTEE

This committee meets on a regular basis to review and approve large loans and investments. The assessment of business risks includes the evaluation of the client's risk rating level, stage of development, management capabilities, the purpose of the proposed transaction, product, service offering, the security provided, the flexibility of the proposed solution and the markets in which the client operates.

STRATEGIC BUSINESS COUNCIL

BDC's Strategic Business Council regularly reviews the relationship between marketplace gaps, client needs, business solutions, risk appetite and credit risk assessment tools. Market strategies are enhanced or revised as required to more flexibly meet the needs of clients and BDC's risk objectives.Therefore, the Council performs a risk integration role at the market strategy level, before any implementation has been done.

PORTFOLIO OUTLOOK

On a quarterly basis, Management holds a Portfolio Outlook meeting to oversee loans portfolio trends, risk indicators, concentrations, portfolio studies and loan quality assessments. Reports reviewed and decisions recommended form the basis of Management's actions and information for the Board. The Portfolio Outlook Committee performs a loans portfolio risk integration role.

AUDIT AND INSPECTION

BDC's Audit and Inspection team reviews branches and their loans portfolios for credit risk and compliance with policies and procedures in support of BDC objectives. Seventy percent of branches reviewed received the highest rating.

It also reviews corporate units such as Systems and Technology for compliance with policies and procedures.

CATEGORIES OF RISK AT BDC

The Board and Management determine the top risks facing BDC on an annual basis. There are three broad categories of risk: Credit Risk, Market Risk and Operational Risk.

Credit Risk is the risk of financial loss that arises from the possibility of default on a loan.

Market Risk is incurred in BDC's Treasury operations and in BDC Venture Capital investing activities.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.

These categories of risk will be discussed in greater detail in the MD&A.

Management's Discussion and Analysis of Financial Results

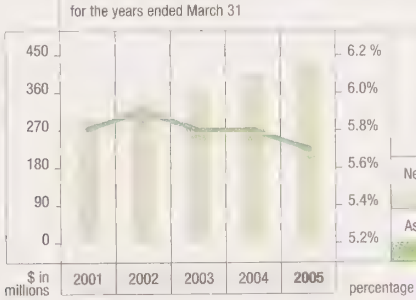
Caution Regarding Forward-Looking Statements. This section is based on Management's best estimates. Risks and uncertainties may cause actual results to differ materially from these estimates. Some of the factors that could cause such differences include general economic and market conditions, such as interest rates and currency values and the performance of venture capital investments.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Outstanding loans	$7.5 B	$8.2 B	$8.1 B	$8.8 B

The robust Canadian economy contributed to excellent financial results from BDC loan operations, with a record net income of $172.5 million in fiscal 2005, an increase of $80 million from fiscal 2004. A healthy and growing loans portfolio generated net interest and other income (NII) of $441 million, compared to $411 million in fiscal 2004. The on-going strength of the economy also continues to have a beneficial impact on the credit performance of the loans portfolio. Consequently the provision for credit losses was reduced from $118 million in 2004 to $54 million in the current year. The $64 million reduction in the provision for credit losses contributed significantly to increasing net profit in 2005.

Including BDC's 50% share of the BDC-CDP alliance for subordinate loan financing, the loans portfolio increased to $8.1 billion at March 31, 2005 from $7.5 billion at March 31, 2004. Portfolio growth is the result of disbursements of new loans, less principal repayments and write-offs.

Loan Operations Net Interest and Other Income
for the years ended March 31

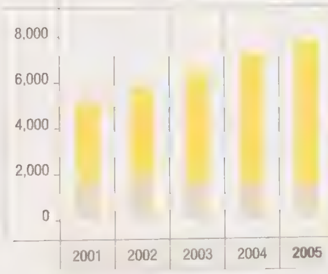


	2001	2002	2003	2004	2005
Net interest and other income (amount)	302	341	369	411	**441**
As a percentage of average portfolio (%)	5.8	5.9	5.8	5.8	**5.7**

Loans are granted to clients at either fixed or floating interest rates, at the client's option. Rates charged to clients are based on BDC's cost of funds, plus a risk factor on individual loans. The cost of funds is determined by BDC's cost of borrowing from global capital markets and the Canadian money market, which is closely monitored by BDC to manage borrowing terms and debt maturities with the maturities of lending transactions.

As at March 31, 2005, $6.2 billion of performing loans produced interest income at floating rates averaging 6.9% compared to a portfolio of $5.5 billion at rates averaging 6.7% in March 2004. The remaining $1.6 billion earned fixed rates averaging 7.8% compared to $1.6 billion at 8.2% the previous year. During fiscal 2005, interest rates generally declined on the market, and those lower rates are reflected in BDC's interest income and interest expense. However, the NII expressed as a percentage of the average portfolio was at 5.7%, slightly below the 5.8% level in 2004.

Performing Loan Portfolio as at March 31 ($ in millions)



	2001	2002	2003	2004	2005
Fixed rate portfolio	1,857	1,949	1,658	1,585	**1,590**
Floating rate portfolio	3,283	3,854	4,783	5,560	**6,161**
Total performing portfolio	5,140	5,803	6,441	7,145	**7,751**

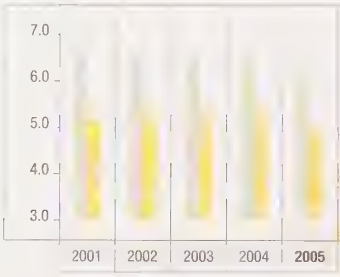
Net interest and other income must be sufficient to cover the provision for loan losses, the operating and administrative expenses, and must generate enough profit net of dividends paid to the shareholder to increase BDC's capital base through retained earnings. This capital base allows BDC to support increased future lending activities and to maintain the necessary capital-to-asset ratio, as prescribed by guidelines of the Government of Canada.

ALLOWANCE AND PROVISION FOR CREDIT LOSSES

BDC's mandate is to support Canadian entrepreneurs to start and grow their businesses. This means taking risk, as no loan is risk-free. The 2005-2009 Corporate Plan furthered the importance of Co-Vision Loans, Productivity Plus Loans (PPLs) and Innovation Financing specifically designed to support start-up, early-stage development and growth businesses. Businesses in these stages are high risk and consequently have shown higher loan loss rates than longer established enterprises. Part of the business model surrounding Co-Vision, PPL and Innovation Financing products involves reducing the amount of security required to cover possible loan losses. The probability of losses on these products is therefore greater than the mere traditional asset-backed loans.

BDC maintains its cumulative allowance for credit losses at a prudent level that reflects its long-term loss experience. The allowance of $483 million at March 2005 compared to $488 million in the previous year, and representing 6.0% of the March 2005 portfolio versus 6.5% in March 2004, reflects a better than anticipated credit performance due to a continuous strong economic cycle.

Allowance for Credit Losses as at March 31 (percentage)



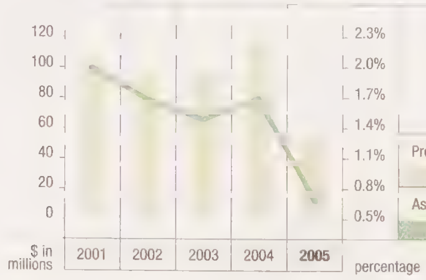
	2001	2002	2003	2004	**2005**
Total allowance as a % of total loans outstanding	6.6	6.6	6.4	6.5	**6.0**
General allowance as a % of performing loans outstanding	5.1	5.2	5.2	5.2	**4.8**

The cumulative allowance comprises a specific allowance of $111 million, covering the net exposure from identified impaired loans and a general allowance of $372 million. The general allowance represents the embedded losses that are present in the portfolio at March 31, but which cannot yet be specifically assigned to individual loans. As a result of the strong economic conditions and the favourable credit performance of the portfolio in fiscal 2005, no additional general provision has been taken in fiscal 2005. This has the effect of maintaining the cumulative general allowance at $372 million (the same amount as last year), while reducing the general allowance to 4.8% of the performing portfolio of $7.8 billion, compared to 5.2% in fiscal 2004.

Loan write-offs are charged to the specific allowance. In fiscal 2005, $61 million in loans were written off, versus $65 million in fiscal 2004.

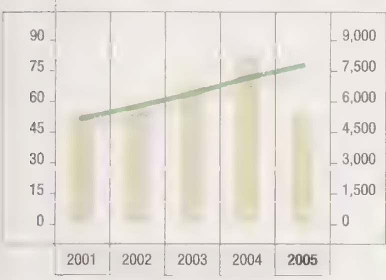
The total allowance, net of write-offs, is the cumulative result of the annual provisions for credit losses charged to operating results. The provision was $54 million in fiscal 2005, versus $118 million in fiscal 2004, compared to $140 million which had been projected in the 2005-2009 Corporate Plan.

Provision for Credit Losses for the years ended March 31



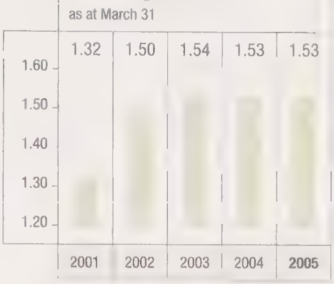
	2001	2002	2003	2004	**2005**
Provision for credit losses ($ in millions)	106	95	98	118	**54**
As a percentage of average loan portfolio (%)	2.0	1.7	1.5	1.7	**0.7**

Specific Provision for Credit Losses for the years ended March 31 ($ in millions)



	2001	2002	2003	2004	2005
Specific provision for credit losses	54	57	68	82	**54**
Average portfolio	5,194	5,749	6,402	7,136	**7,757**

Coverage Ratio
as at March 31



LOANS PORTFOLIO RISK MANAGEMENT

Loan Credit Risk *is the risk of financial loss that arises from the possibility of default on a loan*. BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus credit decisions are based on the application of BDC's credit experience with similar customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework that is closely linked to a risk-pricing tool. The risk rating provides the basis for understanding the degree of risk in our underwriting, and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and subject to independent review and audit. All BDC managers across Canada are trained to assess overall credit risk.

Loans Portfolio Concentration Risk *is the risk of several loans or borrowers in the same segment defaulting at the same time*. Within the domestic Canadian economy, BDC's loans portfolio is well diversified – geographically, by industry sector and by stage of development.

Environmental Risk *is the risk of a financial loss resulting from a loan with an environmental hazard, including those that were unforeseen or improperly managed.* BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

LOANS PORTFOLIO MANAGEMENT

A portfolio management system provides BDC with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are broken down by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Exception reports enable Management to focus attention on corrective action as required. This system is cutting-edge in terms of risk management best practices, which allows BDC to take on risk in line with its mission.

PORTFOLIO STRATEGIES

The Portfolio Outlook Committee analyzes data and recommends portfolio strategies. Comprised of representatives from different areas of BDC, including field operations, marketing, portfolio risk management and credit risk management, the Committee ensures a balanced and integrated view of both market and risk strategies.

LOAN IMPAIRMENT

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Impaired loans amounted to $315 million as at March 31, 2005, compared to $320 million a year ago. The specific allowance for credit losses of $111 million is considered to be sufficient to cover the net loss exposure of these loans.

OPERATING AND ADMINISTRATIVE EXPENSES

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Efficiency ratio	48.7%	47.4%	48.5%	47.4%

Loan operating and administrative expenses of $214 million were $14 million higher than the $200 million recorded in fiscal 2004. The increase was due to higher staff levels, increased pensioner costs, and ongoing investments in both information technologies and BDC's branch network. Salary and benefits represented 59% of the operating and administrative expenses, consistent with prior years.

BDC's pension expense for its defined benefit plans is determined actuarially and is significantly influenced by the assumptions that are used to determine the expense. These include the discount rate applied to future liabilities, the expected rate of return on fund assets, inflation rates and other factors.

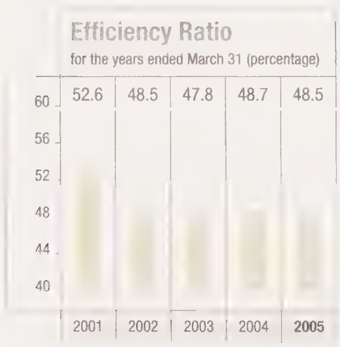
The pension expense declined slightly in fiscal 2005 to $4.4 million, as the realized gains on the pension fund assets in fiscal 2004 reduced the effect of the cumulative losses of prior years. This expense will increase in fiscal 2006, as the rate used to discount future liabilities has been reduced from 6.25% to 6.0%. The lower the interest rate used the higher the cost of the future liability. The rate of the expected return on assets has also been reduced from 7.25% to 7.0%.

The charge for other benefits, which includes the cost of post employment benefits to pensioners increased during the year to $7.1 million from $5.8 million in fiscal 2004, as the effects of higher health care costs and the effect of the lower interest rate used in the actuarial projection pushed up the cost.

BDC's systems and technology costs (including salaries and benefits, equipment and other costs) amounted to $25 million in fiscal 2005, a $2-million increase from fiscal 2004. BDC completed several major projects in 2004 and 2005, including its Customer Relationship Evolving Manager (CREM) application, two business information data marts, and upgrades to human resources and accounting software. The result was a $3.1-million increase in the amortization expense for the year.

Premises and equipment for loan operations of $31 million include the lease expense for all of BDC's operations across the country, such as the branch network. BDC's goal is to bring business and credit decisions closer to the client, and these expenses demonstrate BDC's commitment to a pan-Canadian presence.

During fiscal 2005, BDC expanded, relocated or renovated 10 offices across the country, and opened a new branch in Chaudière-Appalaches, Quebec.



Other expenses of $56 million are comprised of staff training, publicity, marketing and miscellaneous office expenses. These costs are subject to internal controls and are closely monitored. Efficiency and productivity at BDC are measured by the efficiency ratio, which compares operating expenses to net interest and other income, with a lower ratio indicating better efficiency. For fiscal 2005, the efficiency ratio improved to 48.5% from 48.7% in 2004. Notwithstanding increased efficiency, BDC's clients expressed their satisfaction with the calibre of BDC services by improving the client satisfaction rating to a record high level of 93% versus 91% in 2004.

PENSION SUMMARY

Registered pension plan funding requirements are determined by the *Pension Benefits Standards Act* of 1985 and related regulations, while funding limits are defined in the *Income Tax Act* and regulations. Employer and employee contributions to the BDC Registered Pension Plan (RPP) have been suspended since 1994 and 1997 respectively due to funding surpluses. In July 2005, employee contributions to BDC's RPP will be reinstated on a gradual basis, with full contributions beginning in July 2007. At December 2004, the RPP had a *funding deficit* due largely to the discount rate used to determine the cost of future liabilities and consequently employer contributions will be made in fiscal 2006.

During calendar 2004, the RPP surplus for *accounting* purposes decreased from $43 million to $24 million. The latest actuarial projections show that the RPP accounting cost will increase from $4.4 million in fiscal 2005 to $5.7 million in fiscal 2006 as a result of a reduction in the discount rate used to determine the accounting cost of future liabilities, and a reduction in the expected rate of return on the fund's assets.

The supplemental pension plans are largely non-funded and the actuarial accounting deficit of these plans was $36 million at December 2004. Funding of these plans is currently under consideration and may be introduced in the future.

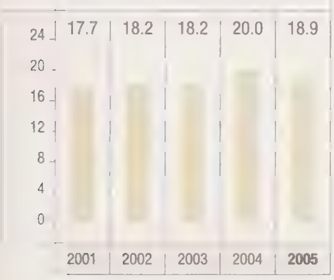
CONSULTING OPERATIONS

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
BDC Consulting revenue	$20.0 M	$19.0 M	$18.9 M	$21.0 M

BDC Consulting offers a comprehensive range of unique business solutions to support the innovation, productivity and operational efficiency of Canadian small and medium-sized businesses and entrepreneurs.

For the year ended March 31, 2005, BDC Consulting operations recorded $18.9 million in revenue, in line with the 2005 target, but $1.1 million lower than last year. However, compared to fiscal 2004, operating and administrative expenses were $1.3 million favourable; consequently, the net loss for fiscal 2005 was reduced by $0.2 million i.e., from $3.1 million to $2.9 million.

Consulting Revenue from Activities
for the years ended March 31 ($ in millions)



As BDC's client base expands, its integrated approach to client relationship management should facilitate a proportionate growth in consulting services. Measures have been included in the 2006-2010 Corporate Plan to strengthen BDC Consulting and to increase consulting support to developing businesses in Canada. Consequently, revenue is expected to increase gradually to the $25-million range by 2010. Net income is expected to remain close to breakeven as consulting operations grow over the next five years.

The demand for BDC services is directly related to those issues which are of interest or present an opportunity for developing businesses in Canada – particularly those with limited financial and human resources. Employees from BDC's consulting and lending operations review clients' needs to ensure their financial and knowledge requirements are appropriately serviced. For many developing businesses, BDC Consulting is the most reliable and focused national source of supply of such services, which are billed to clients at market rates.

VENTURE CAPITAL OPERATIONS

BDC's public policy mandate is to support Canadian entrepreneurship by providing financial and consulting services. In carrying out its activities, BDC must give particular consideration to the needs of small and medium-sized developing businesses. Part of BDC's mandate is therefore to fill market gaps created by a lack of high-risk and small-sized financing sources in the Canadian market. As an alternative to high-risk lending, BDC Venture Capital addresses the high-risk, small-sized financing gap by taking equity positions in developing businesses.

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
Venture Capital 10-year IRR – Total investments	13.1%	10.0%	5.6%	6.3%

Venture Capital operations reported a loss of $56 million for the fiscal year ending March 31, 2005 compared to a loss of $30 million for the same 12-month period in 2004. A persistent lack of divestiture opportunities in both years constrained investment income to $4.7 million in 2005 versus $17.6 million in 2004. Meanwhile the write-down of investments suffering permanent impairment amounted to $47 million in 2005 compared to write-downs of $37 million in fiscal 2004.

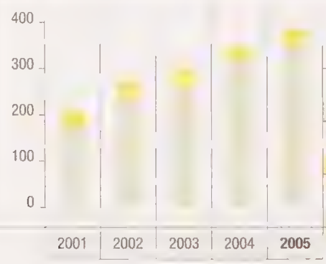
The financial results from BDC Venture Capital undertakings are therefore volatile and dependent on both the success of individual investments, and prevailing market conditions. Divestiture opportunities in particular are dependent on market conditions for takeovers or initial public offerings (IPOs). The IPO market and takeover activity have been very limited for the last three years and continue to lag, which has significantly affected BDC's 10-year internal rate of return. The accompanying chart illustrates the extreme volatility of the profitability of BDC Venture Capital operations. During fiscal 2000 and fiscal 2001, BDC Venture Capital operations recorded profits of $80 million and $56 million respectively; however, since then market conditions have resulted in operating losses in each of the past four years.

Venture Capital Operations for the years ended March 31 ($ in millions)

	2000	2001	2002	2003	2004	2005
Net gains (losses) on investments	112.7	75.8	1.7	(1.9)	14.9	**3.1**
Other income	1.6	8.4	7.0	4.0	2.7	**1.6**
Write-down of investments	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	**(47.4)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	**(56.1)**

BDC's public policy mandate and providing service and support to developing companies mean that BDC continues to meet the demand for its services and make equity investments in start-up and developing companies, despite the downturn in the market.

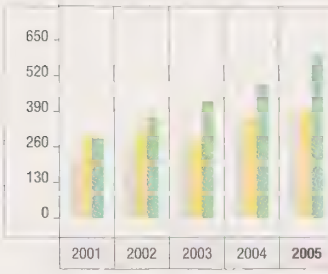
Venture Capital – Total Investments Outstanding
as at March 31 ($ in millions)



	2001	2002	2003	2004	2005
Direct investments	178	237	265	314	**348**
Venture funds	28	34	37	32	**36**
Total investments	206	271	302	346	**384**

BDC has played a leadership role in the Canadian venture capital marketplace, authorizing 78 direct investments valued at $118 million in 2005, compared to 68 direct investments valued at $87 million in 2004. The direct investments authorized in fiscal 2005 included $22 million in technology seed investments compared to $8 million in fiscal 2004 to assist these embryonic businesses to reach the commercialization stage. In addition, $25 million were committed during fiscal 2005 to third-party venture capital funds.

Valuation of Venture Capital – Total Investments
as at March 31 ($ in millions)



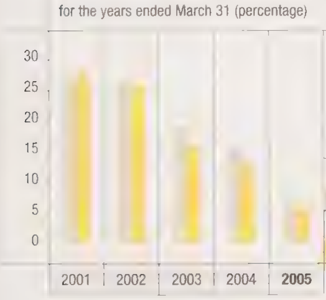
	2001	2002	2003	2004	**2005**
Carrying value	206	271	302	346	**384**
Fair market value	314	327	288	366	**393**
Commitment	296	374	430	491	**604**

Venture capital investing is by nature a high-risk operation and a significant proportion of investments will not be successful and will be written off – frequently within a relatively short timeframe. Conversely, the rewards from successful investments can be high, although the divestiture opportunities of such success stories may take significantly longer to realize – invariably beyond BDC's five-year planning horizon.

Internal rate of return (IRR) is an industry standard performance measure used by BDC and other venture capital investors to measure the relative performance of their investment portfolios. IRR is the rate at which the present value of the cash flows from the portfolio equals the cost of the original investment and it is also assumed that the estimated fair value of the portfolio assets at year-end will ultimately be realized. BDC uses a 10-year moving IRR.

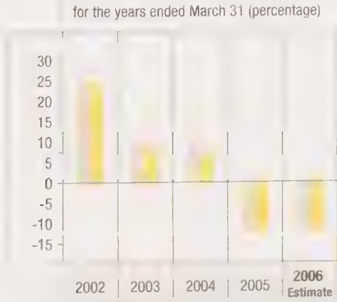
As a result of the loss, BDC Venture Capital's overall IRR, including both direct and indirect investments, fell to 5.6% as at March 31, 2005 compared to 13.1% in fiscal 2004 and BDC's fiscal 2005 target IRR of 10%. BDC's 10-year internal rate of return on direct investments during fiscal 2005 was 7.9% versus an IRR on direct investments of 15.9% at March 31, 2004. The chart below illustrates the impact of the operating losses and depressed market values on the IRR. The profits in 2000 and 2001 offset the losses in more recent years, and without them the returns would be reduced, as illustrated in the forward-looking 5-year IRR chart below.

Venture Capital 10-year Internal Rate of Return
for the years ended March 31 (percentage)



	2001	2002	2003	2004	**2005**
Direct investments	26.9	26.1	19.2	15.9	**7.9**
Total investments	27.9	25.6	16.3	13.1	**5.6**

Venture Capital 5-year Internal Rate of Return
for the years ended March 31 (percentage)



	2002	2003	2004	2005	**2006 Estimate**
Direct investments	25.6	11.0	9.5	(12.2)	**(11.0)**
Total investments	24.7	8.6	6.7	(12.0)	**(12.1)**

Compared to the early stage venture capital industry in Canada, as compiled by Canada's Venture Capital and Private Equity Association (CVCA), BDC's Venture Capital performance compares favourably with the industry as a whole.

IRR Comparison of Early Stage Venture Capital Market as at December 31, 2004

	BDC Performance	Industry Performance*
1-Year	(7.6%)	(5.0%)
5-Year	(2.2%)	(6.5%)
10-Year	7.3%	1.4%

*Source: CVCA
IRRs are calculated on a monthly basis

BDC's 2005-2009 Corporate Plan projected an operating loss from venture capital operations of $5 million for fiscal 2005. Actual losses of $56 million were disappointing, as the predicted recovery in markets did not materialize. In this context, BDC Venture Capital assumed the complementary role it is asked to play and took on a proportionately greater share of Canada's venture capital investments, continuing to support Canadian businesses despite the unfavourable environment. However, new investing activity levels continue to be strong, which augurs well for future years when market conditions finally return to more normal levels and successful investments reach maturity.

Demand for BDC Venture Capital funds is expected to increase steadily in fiscal 2006 and beyond as BDC sets out to productively leverage the $250-million venture capital injection received from the shareholder in fiscal 2005. Direct investment authorizations are projected to be $113 million in 2006 and BDC will also expand its activity in specialized funds.

[illegible] RISK MANAGEMENT

As mentioned above, venture capital investments are innately high risk. The return on the investment portfolio depends on the divestitures of successful investments, which are realizable privately or through transactions on public financial markets that depend on equity prices.

BDC mitigates the risks of venture capital investments by undertaking a detailed due diligence process prior to executing the transaction. Due diligence focuses on the product, on management and the markets in which the company operates. BDC investigates a company's products and/or services before investing, and favours breakthrough technology platform products which demonstrate uniqueness or have clear advantages over existing solutions. BDC also assesses the experience, expertise and commitment of management, as these factors are key in understanding the risk of a venture capital investment. Finally, BDC studies the size and dynamics of the market in which the target company is operating, as well as any competition that might exist or that may develop in the foreseeable future. Where it is deemed to be prudent, BDC hires external resources to independently validate any or all aspects of BDC's own due diligence efforts.

BDC attempts to further lower the risk of its venture capital investments by applying conservative valuations, syndicating most of its investments with external venture capital funds and through regular monitoring. BDC divests its holdings on a phased basis, taking into account market conditions in order to avoid disturbing the market.

[illegible] MANAGEMENT

In such a fast-moving and high-risk sector as venture capital, it is vital for BDC to periodically evaluate the position and market impact of investee companies in its venture capital portfolio. On average, BDC has five companies per investment director in its portfolio. Acknowledging the importance of closely monitoring the activities of investees, BDC has set up semi-annual updates on each investee and a semi-annual review of investees carrying values. Both processes are reviewed by a team within the Senior Management Team.

ACCOUNTING POLICY CHANGE FOR VENTURE CAPITAL OPERATIONS

In fiscal 2006, pursuant to new Canadian GAAP requirements, it is intended to prospectively adopt CICA Accounting Guideline 18 (AcG-18) for BDC Venture Capital operations, which will require the incorporation of a separate legal entity. Consequently, venture capital activities will be valued at fair value rather than cost. Accordingly it can be expected that the financial results of BDC Venture Capital investments will in future fluctuate in line with prevailing market conditions, which could be volatile. The change will be applied prospectively and the impact in fiscal 2006 cannot be calculated at this time, as the income effect will be dependent on future market values.

OPERATIONAL RISK

Operational Risk *is the risk of potential losses arising from day-to-day errors caused by people, processes or systems, or from rare but severe events, such as natural disasters.* BDC has well-defined internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures governs information processing, loan operations, human resources management and other key operational functions. BDC's review of its top risks includes action plans intended to govern operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster, and continues to review and improve its contingency planning.

BDC manages the risks associated with technology and telecommunications failures through programs for replacement of computer systems and equipment. Security and control procedures are in place to respect privacy standards and to ensure that information is managed accurately and efficiently, and these are tested regularly to ensure reliability.

Written-off accounts are reviewed and any operational risks associated with loan operations are identified. From a compilation of these risks, internal control procedures can be modified if necessary.

BALANCE SHEET

BDC's total assets increased by $636 million in fiscal 2005 to $9.4 billion, which is mainly attributable to the $643-million increase in the net portfolios.

BDC must operate within government-established liquidity parameters to ensure that sufficient funds are available to meet customer needs, and maintain appropriate cash and capital balances for operations. Cash, short-term investments and securities at year-end totalled $903 million, compared to $865 million as at March 31, 2004.

BDC's principal assets are its net loans and venture capital portfolios, and its liquidity assets. At March 31, 2005, these assets totalled $8.9 billion, funded by borrowings of $7.3 billion and shareholder's equity of $1.6 billion. Included in shareholder's equity are $250 million of new common shares, issued to BDC's shareholder in January 2005. Net portfolios increased by $0.6 billion. This growth in the portfolios was mostly funded by $250 million of new common shares, a $0.1-billion increase in borrowings and $0.1-billion increase in retained earnings.

Total Outstanding Loans vs Borrowings as at March 31 ($ in millions)

	2001	2002	2003	2004	**2005**
Borrowings	4,949	5,597	6,174	7,181	**7,288**
Loans	5,412	6,071	6,721	7,465	**8,066**

Fixed assets of $41 million are comprised of furniture, leasehold improvements and capitalized information technology investments, net of appropriate amortization.

Unrealized gains and amounts receivable on derivative related assets of $449 million and pension-related assets make up the balance of BDC's remaining assets. Unrealized losses and amounts payable on derivative-related liabilities of $229 million and other liabilities of $139 million, which are primarily related to pension, make up the remainder of BDC's liabilities.

Total shareholder's equity at March 31, 2005 was $1,569 million, including the $250-million increase in common shares and the $101 million increase in retained earnings, net of dividends declared. BDC pays dividends on both its common and preferred shares that are outstanding at year-end. Preferred share dividends are declared based on predetermined per share rates. The common share dividend is payable only on those shares issued after fiscal 2002, and is declared based on a payout ratio of BDC's annual profit.

For the ninth consecutive year, BDC declared a dividend payable to its shareholder. The total amount in fiscal 2005 was $12.3 million, i.e., $9.0 million on preferred shares and $3.3 million on common shares based on BDC's fiscal 2004 performance. As at March 31, 2005, a total of $81 million in dividends has been paid to the shareholder since fiscal 1997.

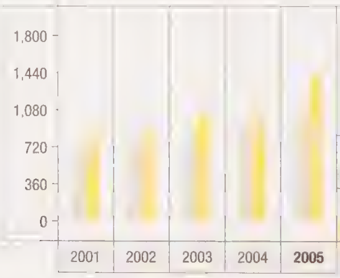
In addition, based on BDC's 2005 performance, a $7.8-million common dividend was declared after March 31, 2005, which will be paid and recorded in fiscal 2006.

BDC's regulatory capital is the amount of capital necessary to support its various loan and investment products as prescribed by the Government of Canada. These capital adequacy amounts are calculated based on the following loan/investment to capital ratio.

- Commercial lending 10:1
- Subordinate Financing 4:1
- Venture Capital 1:1

The graph below shows that BDC operates within its capital adequacy guidelines.

Capital Adequacy
as at March 31 ($ in millions)



	2001	2002	2003	2004	**2005**
Regulatory	740	869	962	1,083	**1,182**
Actual	923	960	1,170	1,219	**1,570**

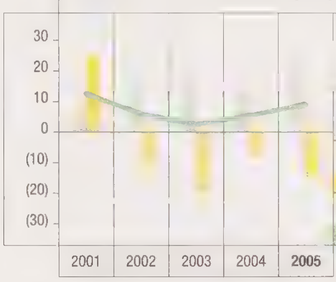
For the year ended March 31, 2005, BDC operated within all the statutory limits stipulated in the *Business Development Bank of Canada Act*. The debt-to-equity ratio was 4.6:1, significantly under the required statutory limit of 12:1.

RETURN ON COMMON EQUITY

Performance Measurement	F 2004 Actual	F 2005 Objective	F 2005 Actual	F 2006 Objective
ROE at least equal to government's average long-term cost of funds	5.1%	7.7%	9.7%	7.7%

The return on common equity in fiscal 2005 was strong, increasing to 9.7% from the 5.1% recorded in fiscal 2004. The increase was created by the strong results in loan operations, partially offset by venture capital losses. The return on equity for Loans and Consulting operations, calculated on a stand-alone basis, was 23.3% for fiscal 2005 versus 14.1% in fiscal 2004.

Return on Common Equity for the years ended March 31 (percentage)



	2001	2002	2003	2004	**2005**
Loans and Consulting	5.5	15.1	16.5	14.1	**23.3**
Venture Capital	25.2	(11.6)	(19.9)	(8.1)	**(14.9)**
Total BDC	12.6	5.7	2.5	5.1	**9.7**

TREASURY RISK MANAGEMENT

***Treasury Risks** are market risks arising from the funding of BDC's balance sheet and operations.* The Treasury Risk Framework at BDC provides for identification, measurement, control and mitigation of treasury risks, which include liquidity risk, market risk, credit risk, operational risk and legal/regulatory risk.

***Liquidity Risk** is the risk that BDC would be unable to honour all contractual cash outflows as they become due.*

BDC's Treasury operations' primary responsibility with liquidity management is to ensure that BDC has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment management policy, which includes liquidity limits that are monitored daily by the Treasury Risk Management Unit. BDC's policy also provides clear guidelines for issuing institutions, all of which are rated above A-. This ensures that BDC's short-term investments are placed in liquid assets in order to be accessible when needed. In addition, at least 75% of short-term investments are to be invested within a term of three months. As at March 31, 2005, 84% of BDC's liquidity investments were to mature within three months.

as at March 31, 2005 ($ in millions)

	Term to maturity		
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	0	0.0	0
AA- to AA+	494.2	14.0	131.5
A to A+	262.8	0.0	0
Total	757.0	14.0	131.5

* From major credit agencies

***Market Risk** is the risk that the value of assets, liabilities or other financial instruments will vary because of adverse changes in market conditions, resulting in losses for BDC.*

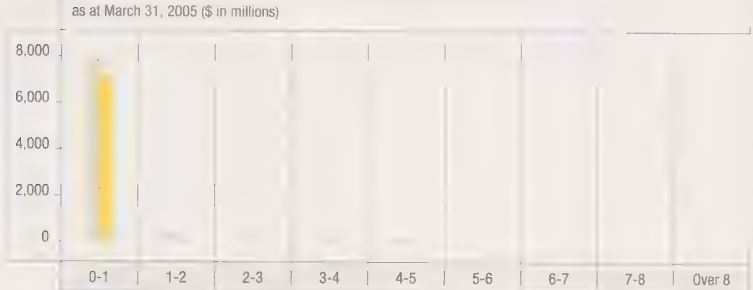
BDC funds its operations by issuing commercial paper and mid to long-term notes. BDC is permitted by law to issue debt in the domestic and foreign markets, under various types of currencies and structures, as long as the exposure to the currencies are hedged in Canadian dollars and the underlying instruments to the structure are swapped into Canadian floating or fixed interest rates. All hedging transactions are completed with approved high-quality counterparties.

***Interest Rate Risk** is the risk that market interest rate fluctuations lead to a loss in the value of financial instruments.*

An asset/liability mismatch occurs when the terms of BDC's interest-rate-sensitive liabilities are not matched with the terms of its interest-rate-sensitive assets. BDC uses borrowing strategies and derivative instruments to manage the gaps. The following graph shows the asset/liability position as at March 31, 2005, after taking into account derivative transactions.

Interest Rate Sensitivity Asset and Liability Gap

as at March 31, 2005 ($ in millions)



	0-1	1-2	2-3	3-4	4-5	5-6	6-7	7-8	Over 8
Assets*	7,644	454	294	231	184	42	31	24	40
Liabilities	7,328	90	0	50	50	0	0	0	0

* Before allowance for credit losses

The Treasury Market Risk Management Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income and BDC's economic value. Latitudes have been set on the sensitivity of the net interest income projected over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points. Adequate asset/liability matching is also achieved by targeting the duration of BDC's equity.

Issuer/Counterparty Risk *is the risk of a possible downgrade of the credit worthiness of a counterparty or its possible default resulting in a loss in the value of outstanding instruments and contractual obligations with this counterparty.*

To adequately mitigate the credit risk inherent in Treasury activities, the Treasury Risk Management Unit (TRMU) identifies and measures the current credit risk exposure with issuers and derivative counterparties. The TRMU also ensures that BDC enters into prescribed derivative transactions with counterparties of an acceptable credit rating, with whom an International Swaps and Derivatives Association (ISDA) Master Agreement is duly signed. The ISDA agreement also includes a Credit Support Annex which defines a limit over which a collateral transfer is required from the counterparty to bring back the value of its credit risk exposure under the threshold amount. Finally, the TRMU ensures the liquidity portfolio is composed of securities issued or guaranteed by entities of acceptable credit rating.

COUNTERPARTY CREDIT RISK EXPOSURE

as at March 31, 2005 ($ in millions)

	Term to maturity						
	Gross exposure						
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years	Gross exposure	Netting agreements**	Collateral held	Net exposure
AAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AA- to AA+	5.0	44.0	174.3	223.3	(77.7)	(79.4)	66.2
A to A+	24.2	27.1	67.2	118.5	(47.9)	(52.0)	18.6
Total	29.2	71.1	241.5	341.8	(125.6)	(131.4)	84.8

* From major credit agencies

** Impact of master netting agreements

***Operational Risk** is the risk of losses resulting from inadequate internal systems and communications devices, lack of controls and sound processes, fraud, human error or external events.*

Although the occurrence of this risk may never be fully eliminated, Treasury limits the severity of operational risk by adopting procedures and controls for daily operational management of treasury operations, for the settlement and accounting of every transaction, and for the maintenance of systems supporting treasury activities.

***Legal and Regulatory Risk** arises when transacting with a counterparty lacking the legal or regulatory authority to engage in a transaction, when adverse changes in legislation affect the value of a set of transactions or because of non-existent or inappropriate derivatives documentation (ISDA Master Agreement).*

Comparison with Fiscal 2005 Plan

New loan authorizations of $2.3 billion were on target and met the Plan's objectives, but the loans portfolio of $8.1 billion at year-end was slightly lower than the objective level of $8.2 billion because actual disbursements were slower than anticipated, and loan prepayments were higher than normal, reflecting the strength of the economy. Consequently the net interest income and other income generated by the portfolio was $441 million, $14 million lower than planned.

Net income from loans of $173 million was significantly better than the Plan's $105 million, as the provision for loan losses came in at $54 million versus a Plan level of $140 million, reflecting the good credit performance of the portfolio in the strong economy, while operating and administrative expenses of $214 million were slightly higher than planned. The productivity ratio of 48.5% was therefore higher than the objective of 47.4%, due to the combination of lower net interest income and other income and higher operating expenses.

Offsetting the strong profit performance from Loan operations, Venture Capital fell short of its Plan objectives with a loss of $56 million compared to the planned loss of $5 million, due to market conditions – a persistent lack of divestiture opportunities produced income of $4.7 million versus the Plan's $30 million, while write-downs of $47 million exceeded the Plan level of $20 million. However, the level of direct investment activities was higher than planned, with 78 deals authorized for $118 million versus $102 million in the Plan.

The consolidated net income of $113 million was better than the $97-million objective in the Corporate Plan. In line with the Corporate Plan, BDC will be paying a total dividend of $16.8 million to its shareholder, including a $7.8-million common dividend based on fiscal 2005 performance that was declared after March 31, 2005.

2006 Corporate Plan Outlook

The 2006 Corporate Plan projects a steady demand for BDC services, and a growth in the loans portfolio to $8.8 billion. The Corporate Plan anticipated net interest income of $473 million, but the operating budget anticipates a slightly lower revenue figure of $470 million. The Corporate Plan projected a return to normal levels of loan losses, with a provision for loan losses of $136 million. The budget follows this return to normalcy, but at a level of $128 million. The net income from loans in the operating budget is $117 million, versus the 2005 actual of $173 million.

Operating and administrative expenses of $225 million will increase commensurate to the volume increase, mainly as a result of the recruitment of additional staff to maintain the high rate of customer satisfaction.

The 2006 Corporate Plan projected a return to profitability of BDC Venture Capital, with investment income of $59 million, write-downs of $40 million and a profit of $5 million. It is now evident that in 2006, BDC Venture Capital will continue to experience a lack of divestiture opportunities, the revised outlook for investment income has been reduced to a $20-million level. Potential write-downs of $35 million will generate a loss of $30 million, a better result than the loss of $56 million in 2005, but less than the Corporate Plan.

Venture Capital activity levels will remain strong, with $113 million of direct investments, plus an $85-million additional commitment to venture capital funds.Consequently, the portfolio will increase from $384 million to $419 million in 2006, and as market conditions improve in subsequent years, and when successful investments reach maturity, the Corporate Plan anticipates a return to profitability.

BDC anticipates that dividends payable to the shareholder will be approximately $17 million in 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

BDC's accounting policies are summarized in Note 2 of the Audited Financial Statements. The policies discussed below are considered to be significant as they can materially impact the financial results and require that Management make certain decisions based on assumptions and estimates which reflect information available at the date of the financial statements. BDC has established internal control procedures, including formal representations and certification by senior officers, to ensure that operating and accounting policies are applied consistently to *fairly present* the financial results. At BDC, critical accounting estimates include the allowance for loan losses, the write-down of venture capital investments that have suffered permanent impairment, and the estimate of fair value of venture capital investments. Assumptions made for pension and other benefit plans are detailed in the **Employee Future Benefits** Note 19 to the financial statements.

General Allowance for Credit Losses

The loans portfolio at year-end contains loans which have suffered impairment but which cannot be identified or measured on an individual loan basis at that time. Management judgement is necessary to determine the magnitude of the probability of default, the loss in the event of default and the amount potentially recoverable from any underlying security on such loans. To the maximum extent possible, exercise of such judgement is mitigated by modelling the potential migration of loans from performing to impaired, taking into account long-term loss experience, changes in economic conditions, and assessments of credit at the time of loan authorization.

BDC's General Allowance is maintained at a prudently conservative level in recognition of the relatively high-risk profile of its lending activities under its mandate.

Write-downs of Venture Capital Investments

Equity investments in early-stage and entrepreneurial enterprises involve a significantly high degree of risk, and constitute much of BDC's Venture Capital activities. When such an enterprise is unsuccessful and suffers permanent impairment it is necessary to write down the value of BDC's investment. The success of individual enterprises is influenced by a number of factors including the prevailing economic circumstances and is reviewed in detail by BDC management during the year and at year-end to determine whether each individual investment has experienced permanent impairment. In unfavourable economic times, investment income from venture capital investments may also suffer from a shortage of opportunity for the divestiture of successful mature investments.

Fair Value Estimates for Venture Capital Investments

Venture capital investments are carried at cost in fiscal 2005, and the fair value of those investments is reported in Note 8 to the financial statements. ***Note: In future fiscal periods the Accounting Policy will change and such investments will be valued at fair value, with changes in fair value from year to year being brought into income.*** The calculation of the Internal Rate of Return (IRR) includes the fair value estimate at year-end, and the estimate of future IRR is materially dependent on the estimates of fair values in future fiscal periods.

IEW ACCOUNTING POLICIE

Accounting Guideline 13

On April 1, 2004, BDC prospectively adopted Accounting Guideline 13 (AcG-13) that establishes certain qualifying conditions for the use of hedge accounting, that are more stringent and formalized than under prior standards. The new accounting standards require reporting entities to recognize derivative financial instruments on the balance sheet at their fair value with changes in fair value reflected in net income, unless the derivative financial instrument is hedging exposures as specified in the new accounting standards. Substantially all of the hedging relationships established by BDC meet these new requirements that specify when hedge accounting can be used. The effect on BDC's results for the year ended March 31, 2005 is not significant.

Asset Retirement Obligations

Effective April 1, 2004, BDC adopted *CICA Section 3110, Asset Retirement Obligations*. This standard requires the recognition of liabilities for the legal obligations related to the retirement of tangible long-lived assets, such as fixed and leased assets. The effect on BDC's Financial Statements of adopting this standard was not significant.

Generally Accepted Accounting Principles (GAAP)

Effective April 1, 2004, BDC adopted *CICA Section 1100, Generally Accepted Accounting Principles*. This standard stipulates the primary and other sources of GAAP to use when selecting accounting policies and determining appropriate disclosures in financial statements. Adoption of this standard had no significant effect on BDC's financial statements.

[illegible]

Venture Capital Investments

In fiscal 2006, BDC intends to prospectively apply Accounting Guideline 18 (AcG-18). This guideline requires investment companies to carry investments at fair value and present them on this basis in its financial statements. Changes in the fair value of the investments will be taken into income. Fair value is considered to be the amount two willing third parties would agree upon in an arm's length transaction. If these changes had been applied in fiscal 2005, the effect on BDC's 2005 results would have been a combined $9.5 million gain resulting from the initial implementation of the standard and the fair market value adjustment for the year.

Financial Instruments, Hedges and Comprehensive Income

The CICA has issued three new accounting standards.

Section 3855, Financial Instruments – Recognition and Measurement

Section 3865, Hedges

Section 1530, Comprehensive Income

These standards must be adopted by BDC in April 2007 at the latest. These pronouncements establish standards for the recognition and measurement of financial instruments. BDC is currently assessing the impact of these standards. Detailed information on the effects of these changes can be found in Note 3 of the March 31, 2005 financial statements.

Management's Responsibility for Financial Information

The financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year, except for the changes in accounting policies adopted in the current year as explained in Note 3 to the financial statements. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, Management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing Management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

André Bourdeau
Acting President and Chief Executive Officer

Alan B. Marquis
Senior Vice President, Finance
and Chief Financial Officer

Montréal, Canada
May 20, 2005

Auditors' Report

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2005 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Montréal, Canada
May 20, 2005

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 20, 2005

BALANCE SHEET

(in $ thousands)

	2005	2004
ASSETS		
Cash and short-term investments (Note 4)	**$ 756,355**	$ 773,365
Securities (Note 5)	**146,348**	92,084
	902,703	865,449
Loans, net of allowance for credit losses (Notes 6 and 7)	**7,582,838**	6,977,544
Venture capital investments (Note 8)	**383,649**	345,624
	7,966,487	7,323,168
Fixed assets, net of accumulated amortization (Note 9)	**41,147**	40,669
Derivative-related assets	**448,638**	503,561
Other assets (Note 10)	**86,186**	76,371
	575,971	620,601
TOTAL ASSETS	**$ 9,445,161**	$ 8,809,218
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 75,650**	$ 58,297
Accrued interest on borrowings	**144,255**	121,329
	219,905	179,626
Borrowings (Note 11)		
Short-term notes	**3,378,569**	3,383,398
Long-term notes	**3,909,687**	3,797,704
	7,288,256	7,181,102
Derivative-related liabilities	**228,689**	101,740
Other liabilities (Note 12)	**138,742**	128,291
SHAREHOLDER'S EQUITY		
Share capital (Note 13)	**1,038,400**	788,400
Contributed surplus	**27,778**	27,778
Retained earnings	**503,391**	402,281
	1,569,569	1,218,459
Guarantees, contingent liabilities and commitments (Note 18)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 9,445,161**	$ 8,809,218

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve, CA
Director
Chairperson Audit Committee

André Bourdeau
Director
Acting President and Chief Executive Officer

STATEMENT OF INCOME AND RETAINED EARNINGS

For the years ended March 31 ($ in thousands)

	2005	2004
LOANS		
Interest income		
Loans	$ 538,323	$ 540,859
Short-term investments and securities	24,357	27,194
	562,680	568,053
Interest expense	160,319	189,911
Net interest income	402,361	378,142
Provision for credit losses (Note 7)	54,232	118,000
Net interest income after provision for credit losses	348,129	260,142
Other income	38,140	32,534
Income before operating and administrative expenses	386,269	292,676
Operating and administrative expenses (Note 14)	213,751	200,121
Income from Loans	172,518	92,555
CONSULTING		
Revenue	18,924	20,006
Operating and administrative expenses (Note 14)	21,811	23,141
Loss from Consulting	(2,887)	(3,135)
VENTURE CAPITAL		
Interest and dividends	1,039	1,410
Net realized gains on investments	12,743	12,749
Unrealized gains (losses) on temporary investments	(9,680)	2,196
Other	597	1,242
Investment income	4,699	17,597
Write-down of investments	47,384	36,770
Net investment loss	(42,685)	(19,173)
Operating and administrative expenses (Note 14)	13,458	11,126
Loss from Venture Capital	(56,143)	(30,299)
NET INCOME	113,488	59,121
RETAINED EARNINGS		
Beginning of year	402,281	353,839
Dividends on common shares	(3,348)	(397)
Dividends on preferred shares	(9,030)	(10,282)
END OF YEAR	$ 503,391	$ 402,281

The accompanying Notes to Financial Statements are an integral part of this statement

STATEMENT OF CASH FLOWS

[illegible] the years e[illegible]

		2005		2004
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES				
Net income	**$**	**113,488**	$	59,121
Adjustments to determine net cash flows:				
Net realized gains on venture capital investments		**(12,743)**		(12,749)
Unrealized losses (gains) on venture capital temporary investments		**9,680**		(2,196)
Provision for credit losses and write-down of venture capital investments		**102,141**		155,471
Amortization of fixed assets		**12,088**		9,004
Changes in operating assets and liabilities:				
Change in interest receivable on loans		**322**		(513)
Change in accrued interest on borrowings		**(1,265)**		(11,633)
Translation adjustment on borrowings and securities		**(216,499)**		122,646
Change in derivative-related assets		**54,923**		(200,996)
Change in derivative-related liabilities		**151,139**		(33,121)
Net change in other assets and other liabilities		**18,718**		1,518
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		**231,992**		86,552
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchases of securities		**(70,600)**		(28,825)
Maturities of securities		**10,112**		(3,966)
Additions in securities purchased under resale agreements		**–**		(97,493)
Maturities of securities purchased under resale agreements		**97,493**		74,977
Disbursements for loans		**(2,148,754)**		(2,074,051)
Disbursements for venture capital investments		**(104,206)**		(91,171)
Repayments of loans		**1,488,905**		1,267,656
Proceeds on sales of venture capital investments		**21,861**		25,667
Acquisition of fixed assets		**(12,566)**		(15,961)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(717,755)**		(943,167)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES				
Issue of long-term notes		**1,140,264**		1,716,473
Repayment of long-term notes		**(814,007)**		(883,182)
Net change in short-term notes		**3,620**		55,243
Proceeds from issue of common shares		**250,000**		–
Dividends paid on common and preferred shares		**(13,631)**		(11,787)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		**566,246**		876,747
Net increase in cash and cash equivalents		**80,483**		20,132
Cash and cash equivalents at beginning of year		**675,872**		655,740
Cash and cash equivalents at end of year (Note 4)	**$**	**756,355**	$	675,872
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Amount of interest paid in the year	**$**	**161,585**	$	201,544

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

($ in thousands except as otherwise indicated)

1 - ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. The Bank offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. The *Business Development Bank of Canada Act* (BDC Act) also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2005.

The Bank is for all purposes an agent of Her Majesty in right of Canada. The Bank is also named in Part I of Schedule III to the *Financial Administration Act.*

2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that Management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in a significant change in these Management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

The Bank holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of the debt securities which can be held by the Bank.

Debt securities are purchased with the intention of being held to maturity and are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Joint venture investments in loan portfolios are recorded using the proportionate consolidation method whereby the Bank's prorata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined with similar items in the financial statements.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects Management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries. Loans are written off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and Management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Essentially all venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in specialized funds and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and telecommunication	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	over the term of the lease, maximum 15 years
Corporate project development costs	3-7 years

Derivative-related assets

Derivative-related assets include unrealized gains and amounts receivable on derivative financial instruments that are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings.

Derivative-related liabilities

Derivative-related liabilities include unrealized losses on derivative financial instruments and amounts payable to counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings.

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet. The bank also formally assesses the effectiveness of the hedging relationships at the hedge's inception as well as on a quarterly basis.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. Highly effective derivatives used for hedging interest rate risks are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in derivative-related assets or in derivative-related liabilities.

Unrealized foreign exchange and equity translation gains and losses on highly effective cross-currency or equity-linked derivative financial instruments are respectively accrued in derivative-related assets or derivative related liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. Highly effective derivatives accomplish the objectives of offsetting changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative financial instruments not associated with effective hedging relationships are carried at fair value on the balance sheet, with any change in the fair value charged or credited to the income statement. Deferred gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any previously deferred gain or loss on such derivative instrument is immediately recognized in income (interest expense).

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract. Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Annual valuations, as at December 31, are performed by independent actuaries to determine the present value of accrued pension benefit obligation using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments. Pension Fund assets are valued at fair value for the purpose of calculating the expected return on plan assets. The Bank also maintains, non-funded, supplemental pension plans and other benefits for eligible employees.

Components of the change in the Bank's benefit obligations from year to year and the calculation of the pension cost are as follows:

Current service cost represents benefits earned in the current year. These are determined with reference to the current employees and to the amount of benefits they will be entitled to upon retirement, based on the provisions of the Bank's benefit plans.

Interest cost on benefit obligation represents the increase in the pension obligations that results from the passage of time.

Actuarial gains or losses may arise in two ways. First, each year the Bank's actuaries recalculate the benefit obligations and compare them to those estimated as at the prior year-end. The differences that arise from changes in assumptions or from plan experience being different from what was expected by management at the prior year-end are considered actuarial gains or losses. Secondly, actuarial gains or losses are created when there are differences between expected and actual returns on plan assets. At the beginning of each fiscal year, the Bank determines whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plans asset or the accrued benefit obligation balances. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of the Bank's active employees. The average remaining service period of the active employees covered by the Registered pension plan is 8.2 years (8.2 years in 2004). The average remaining service period of the active employees covered by the Supplemental pension plan is 8.2 years (8.3 years in 2004). Amounts that fall within the 10% corridor are not amortized.

Expected return on plan assets represents Management's best estimate of the long-term rate of return on assets applied to the fair value of plan assets. Differences between expected and actual returns on plan assets are included in the actuarial gains and losses described above.

Amortization of transitional assets relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, the Bank had a transitional asset that is being amortized to income on a straight-line basis over the average remaining service period of the Bank's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period ranged from 8.5 years for the Registered Plan to 13 years for the other plans.

Pension and Other Employee Future Benefit Assets

Assets are set aside to satisfy the Bank's pension obligation related to BDC's registered pension plan. Retirement benefits for the other supplemental plans are paid out of operations. The Other plans, which include the Employee Future Benefit Liability, are unfunded.

3- CHANGES IN ACCOUNTING POLICIES

Accounting Changes Adopted in the Current Year

a) Hedging relationships

Accounting Guideline 13 - Hedging Relationships (AcG-13) and Emerging Issues Committee Abstract 128 - Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments (EIC-128).

On April 1, 2004, the Bank prospectively adopted AcG-13 that establishes certain qualifying conditions for the use of hedge accounting, that are more stringent and formalized than under prior standards. These qualifying conditions include the formal documentation of the effectiveness of relationships between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. It requires assessment of effectiveness both at the hedge's inception and on a quarterly basis.

Substantially all of the hedging relationships established by the Bank meet these new requirements that specify when hedge accounting can be used. Under EIC-128, derivative financial instruments that do not qualify for hedge accounting must be carried at fair value on the balance sheet, and any change in the fair value must be charged or credited to the income statement.

The effect on the Bank's results for the year ended March 31, 2005 is not significant.

($ in thousands except as otherwise indicated)

3- CHANGES IN ACCOUNTING POLICIES (continued)

b) Generally accepted accounting principles (GAAP)

Effective April 1, 2004, the Bank adopted CICA Section 1100, Generally Accepted Accounting Principles. This standard stipulates the primary and other sources of GAAP to use when selecting accounting policies and determining appropriate disclosures in financial statements. Adoption of this standard had no significant effect on the Bank's financial statements.

Future Accounting Changes

a) Financial Instruments, Hedges and Comprehensive Income

The CICA has issued three new accounting standards:

- Section 3855, *Financial Instruments – Recognition and Measurement*
- Section 3865, *Hedges*
- Section 1530, *Comprehensive Income*

These standards must be adopted by the Bank beginning April 2007, at the latest. The principal effects of the standards are as follows:

- New Section 3855 prescribes standards for recognizing and measuring financial instruments on the balance sheet and how related gains or losses are to be presented. Under this standard, the carrying value of certain financial instruments will change from cost to fair value.
- New Section 3865 modifies the timing of recognizing gains or losses under Section 3855 to permit the matching of gains and losses in the Statement of Income for financial instruments included in highly effective hedging transactions.
- New Section 1530 introduces a new component of Shareholder's Equity and a new Statement of Comprehensive Income that will present certain gains and losses arising from the application of Sections 3855 and 3865, before they are transferred to the Statement of Income.

The Bank has not completed its analysis of the effect of adopting these new standards on its financial statements.

b) Venture Capital Investments

For the year ending March 31, 2006, the Bank intends to prospectively apply Accounting Guideline 18 (AcG-18), *Investment Companies*. This standard requires defined investment companies or the parent company, or equity investor in such investments companies to account for all of its investments at fair value and exempts such entities from the consolidation or equity accounting requirements that would otherwise apply.

4 - CASH AND SHORT-TERM INVESTMENTS

		2005		2004
Bank account balances, net of cheques outstanding	**$**	**(12,142)**	$	(13,157)
Short-term bank notes		**768,497**		689,029
Cash and cash equivalents		**756,355**		675,872
Securities purchased under resale agreements		**–**		97,493
	$	**756,355**	$	773,365

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

(in thousands $)

5 - SECURITIES

	Term to maturity			2005	2004
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial Institutions					
Carrying value	$ 15,038	$ 78,346	$ 52,964	**$ 146,348**	$ 92,084
Yield	4.47%	2.74%	2.41%	**2.79%**	2.31%
Fair value	$ 15,100	$ 78,554	$ 53,151	**$ 146,805**	$ 92,834
Swap Contracts					
Notional amount	$ 15,000	$ 84,600	$ 56,500	**$ 156,100**	$ 95,500
Adjusted yield [1]	2.81%	2.74%	2.80%	**2.77%**	2.45%
Amounts denominated in foreign currencies included in the carrying value of securities					
		US dollars - 2004	$ 51,050		$ 66,934
		US dollars - 2005	**$ 51,050**		
		Eurodollars - 2005	**$ 44,400**	**$ 131,310**	

[1] After adjusting for the effect of related derivatives (see Note 16).

All securities held as at March 31 were issued by Canadian entities at fixed and floating rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and the foreign exchange risks associated with the above securities.

6 - LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2005		2004	
Performing - floating	**$ 6,160,777**	**6.88%**	$ 5,560,591	6.67%
Performing - fixed				
Under one year	**445,238**	**7.58%**	462,250	7.50%
1 to 2 years	**309,232**	**7.60%**	299,372	8.41%
2 to 3 years	**202,217**	**7.88%**	236,969	8.49%
3 to 4 years	**221,364**	**8.15%**	171,783	8.94%
4 to 5 years	**169,030**	**8.09%**	218,395	8.35%
Over 5 years	**242,766**	**7.94%**	196,162	8.73%
Performing	**7,750,624**		7,145,522	
Impaired	**315,388**		319,672	
Total loans	**8,066,012**		7,465,194	
Allowance for credit losses				
General	**(372,458)**		(372,458)	
Specific	**(110,716)**		(115,192)	
	(483,174)		(487,650)	
Loans, net of allowance for credit losses	**$ 7,582,838**		$ 6,977,544	

$ in thousands except as otherwise indicated

6 - LOANS (continued)

The average amount of loans, net of allowance for credit losses, was of $7,226,299 in 2005 ($6,649,149 in 2004).

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	**2005**		2004	
Newfoundland and Labrador	**$ 328,877**	**4.1%**	$ 300,660	4.0%
Prince Edward Island	**46,217**	**0.6%**	45,625	0.6%
Nova Scotia	**184,292**	**2.3%**	165,849	2.2%
New Brunswick	**296,270**	**3.7%**	265,975	3.6%
Quebec	**3,230,537**	**40.0%**	3,018,833	40.4%
Ontario	**2,575,797**	**31.9%**	2,386,339	32.0%
Manitoba	**136,729**	**1.7%**	113,759	1.5%
Saskatchewan	**101,521**	**1.2%**	102,284	1.4%
Alberta	**474,694**	**5.9%**	430,786	5.8%
British Columbia	**636,129**	**7.9%**	583,122	7.8%
Yukon	**24,158**	**0.3%**	20,770	0.3%
Northwest Territories and Nunavut	**30,791**	**0.4%**	31,192	0.4%
Total loans outstanding	**$ 8,066,012**	**100.0%**	$ 7,465,194	100.0%

7 - ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2005	2004
Balance at beginning of year	**$ 487,650**	$ 432,739
Write-offs	**(61,207)**	(64,756)
Interest income due to accretion	**(3,956)**	(3,877)
Recoveries	**6,455**	5,544
	428,942	369,650
Provision for credit losses	**54,232**	118,000
Balance at end of year	**$ 483,174**	$ 487,650

8 - VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.1% of total venture capital investments.

	2005		2004	
Industry Sector	**Carrying value**	**Fair value**	Carrying value	Fair value
Biotechnology/Medical/Health	**$ 108,033**	**$ 115,350**	$ 91,640	$ 120,595
Information Technology	**76,021**	**70,559**	52,032	57,096
Seed Funds	**9,277**	**9,277**	12,440	12,440
Specialized Funds	**26,753**	**26,753**	19,572	19,626
Electronics	**80,927**	**79,614**	76,185	67,630
Communications	**68,476**	**71,087**	79,228	72,223
Energy	**1,300**	**1,300**	3,975	3,975
Industrial	**9,574**	**9,698**	6,715	6,819
Consumer-related	**2,538**	**2,538**	2,537	2,537
Other	**750**	**7,022**	1,300	3,030
Venture capital investments	**$ 383,649**	**$ 393,198**	$ 345,624	$ 365,971

(See Note 15 for determination of fair value)

The preceding table includes $11,491 ($10,458 in 2004) of temporary investments, with a fair value of $11,491 ($10,458 in 2004). The average carrying value of venture capital investments was $374,017 in 2005 ($321,818 in 2004).

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	**2005**	**2004**
Common shares	**$ 122,382**	$ 122,456
Preferred shares	**202,044**	178,398
Debentures	**59,223**	44,770
Venture capital investments	**$ 383,649**	$ 345,624

The Bank has invested in T^2C^2 Bio, T^2C^2 Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2005	2004
Current assets	**$ 1,754**	$ 2,045
Venture Capital investments	**7,145**	9,375
Other assets	**3**	7
Current liabilities	**47**	10
Investment income	**81**	638
Write-down on investments	**2,554**	8,170
Operating and administrative expenses	**480**	577
Loss from Venture Capital	**$ (2,953)**	$ (8,109)
Cash flows from (used in):		
Operating activities	**$ (350)**	$ (345)
Investing activities	**(522)**	209
Financing activities	**600**	(30)

($ in thousands except as otherwise indicated)

9 - FIXED ASSETS

	2005			2004
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Furniture, fixtures and equipment	$ 37,138	$ 33,472	$ 3,666	$ 3,047
Computer equipment and telecommunication	25,891	21,304	4,587	5,595
Corporate project development costs	34,398	16,110	18,288	16,436
Leasehold improvements	38,365	23,759	14,606	15,591
	$ 135,792	$ 94,645	$ 41,147	$ 40,669

10 - OTHER ASSETS

	2005	2004
Accrued benefit asset	$ 60,696	$ 60,831
Unamortized debt issue expenses on long-term notes	1,536	1,291
Other	23,954	14,249
	$ 86,186	$ 76,371

11 - BORROWINGS

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

			2005		2004	
Maturity date	Effective rate*		Principal amount	Carrying value	Principal amount	Carrying value
Short-term notes						
2005		USD			$ 435,430	$ 566,884
		CDN			2,825,448	2,816,514
2006	2.37 % - 2.87%	USD	$ 962,560	$ 1,159,603		
		CDN	2,229,262	2,218,966		
Total short-term notes				$ 3,378,569		$ 3,383,398

$ in thousands except as otherwise

11 - BORROWINGS (continued)

			2005		2004	
Maturity date	**Effective rate***		**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes						
2005		USD	**$ –**	**$ –**	$ 3,000	$ 7,123
		CDN	**–**	**–**	216,025	216,025
2006	2.67%	USD	**14,500**	**17,539**	–	–
	2.19% - 4.87%	CDN	**272,348**	**273,191**	234,340	237,853
2007	2.14% - 3.79%	CDN	**259,440**	**261,774**	262,271	268,652
2008	2.30% - 2.41%	CDN	**265,600**	**265,600**	265,600	265,600
2009	2.25%	USD	**43,000**	**52,013**	43,000	56,379
	2.15% - 2.37%	CDN	**252,524**	**255,785**	256,032	263,919
2010	2.28% - 2.34%	USD	**40,000**	**48,384**	15,000	19,667
	2.15% - 2.33%	CDN	**268,736**	**274,465**	186,461	202,590
2011		YEN	**–**	**–**	800,000	10,050
	2.29%	USD	**10,000**	**12,074**	10,000	13,321
	2.14% - 2.32%	CDN	**477,790**	**449,341**	472,790	489,249
2012	2.30%	USD	**10,000**	**12,096**	–	–
	2.14% - 2.21%	CDN	**355,244**	**356,696**	341,090	346,743
2013	2.33% - 2.35%	USD	**16,000**	**19,354**	36,000	47,201
	2.33%	CDN	**5,000**	**5,000**	5,000	5,000
2014	2.31% - 2.35%	YEN	**4,400,000**	**49,650**	12,000,000	150,759
	2.28% - 2.38%	USD	**93,200**	**112,735**	183,800	240,201
	2.31% - 2.33%	CDN	**20,000**	**20,000**	–	–
2015	2.30% - 2.37%	YEN	**9,200,000**	**103,814**	1,000,000	12,563
	2.30% - 2.35%	USD	**65,000**	**78,624**	–	–
2016	2.32% - 2.36%	YEN	**2,500,000**	**28,210**	2,500,000	31,408
2017	2.29% - 2.34%	YEN	**6,800,000**	**76,732**	–	–
	2.29%	USD	**3,000**	**3,629**	–	–
2018	2.31% - 2.41%	YEN	**26,300,000**	**296,772**	27,300,000	342,973
2019	2.28% - 2.39%	YEN	**38,900,000**	**438,952**	38,800,000	488,706
	2.36%	USD	**21,632**	**26,166**	62,329	81,722
2020	2.27% - 2.37%	YEN	**32,000,000**	**361,091**	–	–
	2.41%	CDN	**10,000**	**10,000**	–	–
Total long-term notes				**$ 3,909,687**		$ 3,797,704

* The effective rates on long-term notes are after giving effect to swap contracts when applicable and refer to yield to maturity for fixed rate issues, and yield to reset for floating rate issues

The preceding table includes $3,851,247 in 2005 and $3,672,679 in 2004 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

($ in thousands except as otherwise indicated)

11 - BORROWINGS (continued)

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the previous table are as follows:

	2005	2004
Interest-bearing notes	**$ 225,654**	$ 369,985
Fixed and inverse floating rate notes	**1,015,579**	929,886
Managed futures	**1,108,946**	1,110,170
Notes linked to equity indices	**736,695**	801,257
Notes linked to currency rates	**278,717**	216,086
Notes linked to swap rates	**94,787**	47,740
Notes extendible beyond maturity	**–**	10,000
Other structured notes	**449,309**	312,580
	$ 3,909,687	$ 3,797,704

Long-term notes of $2,321,871 may be called prior to maturity (in 2004: $1,376,751).

As at March 31, 2005, the payment requirements and maturities of long-term notes are as follows:

2006	**$ 290,730**
2007	**261,774**
2008	**265,600**
2009	**307,798**
2010	**322,849**
2011 and later	**2,460,936**
	$ 3,909,687

The Bank has an overdraft facility of $ 75 million, whereby all the Bank's cash accounts are totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2005, the Bank was not in an overdraft position.

The Bank also has a line of credit for $ 50 million which was not used throughout fiscal 2005.

12 - OTHER LIABILITIES

	2005	2004
Deferred income	**$ 410**	$ 482
Accrued benefit liability	**112,031**	103,732
Other	**26,301**	24,077
	$ 138,742	$ 128,291

13 - SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding	**2005**			2004		
	Number of shares	**Amount**	**Dividend rate**	Number of shares	Amount	Dividend rate
Preferred shares						
Class A - Series 1	**500,000**	**$ 50,000**	**4.585%**	500,000	$ 50,000	4.585%
- Series 2	**500,000**	**50,000**	**4.365%**	500,000	50,000	4.365%
- Series 3	**500,000**	**50,000**	**3.965%**	500,000	50,000	5.515%
- Series 4	**400,000**	**40,000**	**3.610%**	400,000	40,000	3.610%
- Series 5	**400,000**	**40,000**	**2.820%**	400,000	40,000	2.820%
		230,000			230,000	
Common shares	**8,084,000**	**808,400**		5,584,000	558,400	
Total Outstanding Share Capital		**$ 1,038,400**			$ 788,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion.

14 - OPERATING AND ADMINISTRATIVE EXPENSES

	2005			2004		
	Loans	**Consulting**	**Venture Capital**	Loans	Consulting	Venture Capital
Salaries and staff benefits	**$ 126,258**	**$ 16,896**	**$ 8,935**	$ 116,038	$ 19,280	$ 6,815
Premises and equipment	**31,136**	**657**	**1,098**	27,056	679	1,236
Other expenses	**56,357**	**4,258**	**3,425**	57,027	3,182	3,075
	$ 213,751	**$ 21,811**	**$ 13,458**	$ 200,121	$ 23,141	$ 11,126

($ in thousands except as otherwise indicated)

15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values of on-balance-sheet financial instruments are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2005			2004		
	Carrying value	**Fair value**	**Fair value over (under) carrying value**	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	**$ 756,355**	**$ 756,355**	**$ –**	$ 773,365	$ 773,365	$ –
Securities (Note 5)	**146,348**	**146,805**	**457**	92,084	92,834	750
Loans, net of allowance for credit losses	**7,582,838**	**7,595,197**	**12,359**	6,977,544	7,022,150	44,606
Venture capital investments (Note 8)	**383,649**	**393,198**	**9,549**	345,624	365,971	20,347
Other assets	**269,291**	**269,291**	**–**	259,203	259,203	–
	$ 9,138,481	**$ 9,160,846**	**$ 22,365**	$ 8,447,820	$ 8,513,523	$ 65,703
Liabilities						
Accounts payable and accrued liabilities	**$ 75,650**	**$ 75,650**	**$ –**	$ 58,297	$ 58,297	$ –
Accrued interest on borrowings	**19,549**	**19,549**	**–**	19,380	19,380	–
Short-term notes	**3,378,569**	**3,378,569**	**–**	3,383,398	3,383,398	–
Long-term notes	**3,909,687**	**4,115,687**	**206,000**	3,797,704	3,995,389	197,685
Other liabilities	**8,717**	**8,717**	**–**	6,148	6,148	–
	$ 7,392,172	**$ 7,598,172**	**$ 206,000**	$ 7,264,927	$ 7,462,612	$ 197,685
			$ (183,635)			$ (131,982)
Derivative financial instruments (Note 16)	**$ (168,749)**	**$ 37,071**	**$ 205,820**	$ 48,729	$ 240,841	$ 192,112
Total			**$ 22,185**			$ 60,130

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value - The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

$ in thousands except as otherwise indicated.

15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Securities - The fair value of securities is provided in Note 5 to the financial statements.

Loans - For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

Venture capital investments - For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes - The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments - The fair value of derivative financial instruments is provided in Note 16 to the financial statements.

16 - DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by positive and negative fair values.

	2005			2004		
	Positive	**Negative**	**Net amount**	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	**$ 3,857**	**$ 8,129**	**$ (4,272)**	$ 8,173	$ 1,990	$ 6,183
Equity-linked swap contracts	**324,755**	**76,238**	**248,517**	377,346	85,069	292,277
Forward rate agreements	**–**	**3**	**(3)**	106	29	77
Cross-currency interest rate swap contracts	**11,940**	**200,314**	**(188,374)**	27,384	75,067	(47,683)
Currency forward contracts	**1,326**	**20,123**	**(18,797)**	73	10,086	(10,013)
Total fair value	**$ 341,878**	**$ 304,807**	**$ 37,071**	$ 413,082	$ 172,241	$ 240,841
Less impact of master netting agreements	**125,646**	**125,646**	**–**	116,843	116,843	–
Total	**$ 216,232**	**$ 179,161**	**$ 37,071**	$ 296,239	$ 55,398	$ 240,841

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of derivative financial instruments held by the Bank are not indicative of the credit risk exposure associated with the contracts. This risk of loss is related to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

($ in thousands except as otherwise indicated)

16 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	**Counterparty Ratings**			
	AAA	**AA- to AA+**	**A to A+**	**Total**
Gross positive replacement cost	**$ –**	**$ 223,441**	**$ 118,437**	**$ 341,878**
Impact of master netting agreements	**–**	**(77,826)**	**(47,820)**	**(125,646)**
Replacement cost (after master netting agreements)	**$ –**	**$ 145,615**	**$ 70,617**	**$ 216,232**
Replacement cost (after master netting agreements) - 2004	$ 387	$ 212,615	$ 83,237	$ 296,239
Number of counterparties				
March 31, 2005	**0**	**4**	**2**	
March 31, 2004	1	5	9	

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								**2005**		2004	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Interest rate contracts												
$CDN payable - fixed	$ 15,000	5.60	$ –	–	$ –	–	$ –	–	**$ 15,000**	**$ –**	$ 25,000	$ –
$CDN receivable - fixed	130,000	5.00	105,000	3.68	90,000	3.70	10,000	5.36	**335,000**	**1,849**	139,355	3,812
$US receivable - fixed	–	–	–	–	–	–	10,499	5.58	**10,499**	**–**	41,201	459
Basis swaps	75,000	n.a.	–	–	–	–	–	–	**75,000**	**–**	1,017,000	274
Equity-linked swap contracts	155,193	n.a.	582,431	n.a.	877,815	n.a.	1,345,426	n.a.	**2,960,865**	**324,755**	2,900,115	377,346
Other swap contracts	–	–	18,812	n.a.	–	–	27,861	–	**46,673**	**2,009**	18,812	3,628
	375,193		706,243		967,815		1,393,786		**3,443,037**	**328,613**	4,141,483	385,519
Forward rate agreements	10,000	n.a.	–	–	–	–	–	–	**10,000**	**–**	620,000	106
Cross-currency interest rate swap contracts	–	–	84,600	n.a.	178,051	n.a.	1,901,506	n.a.	**2,164,157**	**11,939**	1,674,868	27,384
Total interest rate contracts	385,193		790,843		1,145,866		3,295,292		**5,617,194**	**340,552**	6,436,351	413,009
Foreign exchange contracts												
Currency forward contracts	1,192,280	n.a.	–	–	–	–	–	–	**1,192,280**	**1,326**	588,995	73
Total foreign exchange contracts	1,192,280		–		–		–		**1,192,280**	**1,326**	588,995	73
Total	$ 1,577,473		$ 790,843		$ 1,145,866		$ 3,295,292		**$ 6,809,474**	**$ 341,878**	$ 7,025,346	$ 413,082
Less impact of master netting agreements	–		–	–	–	–	–	–	**–**	**125,646**	–	116,843
Total	$ 1,577,473		$ 790,843		$ 1,145,866		$ 3,295,292		**$ 6,809,474**	**$ 216,232**	$ 7,025,346	$ 296,239

n.a. – not applicable or weighted rates are not significant

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

17 - INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

18 - GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees

The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

Derivative instruments
As part of its financing operations, the Bank has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meet the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $33,251 and is included in the Balance Sheet under Derivative-related liabilities.

Indemnifications
In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that the Bank cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, the Bank has not made any significant payments under these indemnities.

Contingent liabilities

A class action recourse has been launched by some of the Bank's pensioners for surplus amounts and reimbursement of certain expenses in the Bank's Pension Plan. BDC has a meritorious defence to these claims. However, at this stage, it is too early to predict the outcome of this matter.

The former President and Chief Executive Officer of the Bank, who was released from his duties in February 2004, has instituted proceedings against the federal government for the recovery of damages allegedly resulting from the termination of this employment. Although named in the lawsuit as an impleaded party, the Bank is not a target of the litigation and no monetary or other demands have been made against it.

Due to the uncertainty of the outcome and amount of financial settlement, if any, with respect to the above-noted legal claims, no provisions have been recorded by the Bank.

Various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that should the Bank be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

Commitments

Undisbursed amounts of authorized loans are approximately $958,000 at March 31, 2005. These loan commitments are for an average period of three months ($83,500-fixed rate; $875,300-floating rate). The effective interest rates on these loan commitments vary from 4.7% to 18.0%. These include the Bank's share of undisbursed amounts of authorized joint venture financings which is approximately $18,000 at March 31, 2005. The undisbursed amounts on authorized venture capital investments approximated $112,900 at March 31, 2005.

$ in thousands except as otherwise indicated

GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Future minimum lease commitments under operating leases related to the rental of Bank premises are approximately as follows:

2006	$ 20,178
2007	19,564
2008	17,454
2009	15,875
2010	13,820
2011 - 2020	86,719
	$ 173,610

19 - EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans for eligible employees ("pension plan"), which provide post-retirement benefits based on number of years of service and average final pay and is fully indexed to the Consumer Price Index. The Bank also provides health care benefits, life insurance and other benefit for employees and eligible retirees.

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004	**2005**	2004
Change in accrued benefit obligation						
Balance at beginning of year	**$ 410,936**	$ 380,192	**$ 36,637**	$ 30,862	**$ 85,126**	$ 81,567
Current service cost	**15,715**	13,935	**1,029**	854	**3,398**	3,079
Interest cost on benefit obligation	**26,116**	26,030	**2,308**	2,127	**5,820**	5,465
Employee contributions[1]	**509**	–	**–**	–	**–**	–
Benefits paid	**(18,105)**	(16,988)	**(1,426)**	(417)	**(4,988)**	(3,594)
Actuarial (gain) loss	**22,302**	7,767	**39**	3,211	**10,849**	(1,391)
Balance at end of year	**457,473**	410,936	**38,587**	36,637	**100,205**	85,126
Change in fair value of plan assets						
Balance at beginning of year	**$ 453,920**	$ 422,309	**$ 3,377**	$ 3,607	**$ –**	$ –
Employee contributions[1]	**509**	–	**–**	–	**–**	–
Employer contributions	**–**	–	**1,027**	151	**4,988**	3,594
Actual return on plan assets during the year	**44,909**	48,599	**17**	36	**–**	–
Benefits paid	**(18,105)**	(16,988)	**(1,426)**	(417)	**(4,988)**	(3,594)
Balance at end of year	**481,233**	453,920	**2,995**	3,377	**–**	–
Surplus (deficit) at end of year	**$ 23,760**	$ 42,984	**$ (35,592)**	$ (33,260)	**$ (100,205)**	$ (85,126)
Employer contributions after December 31	**–**	–	**195**	532	**313**	750
Unamortized transitional obligation (asset)	**(47,044)**	(60,485)	**1,049**	783	**1,578**	1,775
Unamortized net actuarial loss	**83,980**	78,332	**7,529**	8,048	**13,102**	2,766
Accrued benefit asset (liability) at end of year[2]	**$ 60,696**	$ 60,831	**$ (26,819)**	$ (23,897)	**$ (85,212)**	$ (79,835)

1 Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

2 Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

$ in thousands except as otherwise indicated.

19 - EMPLOYEE FUTURE BENEFITS (continued)

The unamortized net actuarial loss in the Bank's registered pension plan is $83,980 which exceeds 10% of the fair value of the plan assets by $35,857 at December 31, 2004. The unamortized net actuarial loss in the supplemental pension plans is $7,529 which exceeds 10% of the benefit obligation balance by $3,670 at December 31, 2004. These excess amounts will be amortized to pension cost over the expected average remaining service period of active employees, commencing April 1, 2005. As a result of these changes and other factors, pension cost for the Registered pension plan and the Supplemental pension plan is expected to increase by approximately $1.6 million in fiscal 2006. Amortization of accumulated net actuarial losses in periods subsequent to March 31, 2006 will be affected principally by the discount rate used to estimate benefit obligations and by the difference between future investment results and the expected return on plan assets.

Pension and other post-retirement costs are included in Salaries and Staff benefits and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004	**2005**	2004
Defined benefit cost						
Current service cost	**$ 15,715**	$ 13,935	**$ 1,029**	$ 854	**$ 3,398**	$ 3,079
Interest cost	**26,116**	26,030	**2,309**	2,127	**5,820**	5,465
Actual return on plan assets	**(44,909)**	(48,599)	**(17)**	(36)	**–**	–
Actuarial loss (gain) on benefit obligation	**22,302**	7,767	**39**	3,211	**(1,971)**	288
Costs arising in the period	**19,224**	(867)	**3,360**	6,156	**7,247**	8,832
Differences between costs arising in the period and costs recognized in the period in respect of:						
Return on plan assets	**12,637**	17,563	**(98)**	(94)	**–**	–
Actuarial loss (gain)	**(18,285)**	(1,480)	**618**	(2,849)	**2,483**	(310)
Transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	197
Defined benefit cost for the year ended March 31	**$ 135**	$ 1,775	**$ 3,613**	$ 2,946	**$ 9,927**	$ 8,719

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004
Fair value of plan assets	**$ 2,995**	$ 3,377	**$ –**	$ –
Accrued benefit obligation	**38,587**	36,637	**100,205**	85,126

As at December 31, 2004, the fair value of assets in the Bank's registered pension plan is as follows:

Cash and short-term investment	**$ 2,687**	0.6%
Bonds	**185,906**	38.6%
Common and preferred shares	**292,295**	60.7%
Other assets less liabilities	**345**	0.1%
Net assets available for benefits	**$ 481,233**	100.0%

($ in thousands except as otherwise indicated)

19 - EMPLOYEE FUTURE BENEFITS (continued)

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations and annual benefit cost (weighted averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2005	2004	**2005**	2004	**2005**	2004
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**6.25%**	6.75%	**6.25%**	6.75%	**6.25% - 6.75%**	6.75%
Discount rate at end of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% - 6.75%
Expected long-term rate of return on plan assets [1]	**7.25%**	7.50%	**3.63%**	3.75%	**–**	–
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**6.25%**	6.75%	**6.25%**	6.75%	**6.25% - 6.75%**	6.75%
Discount rate at end of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% - 6.75%
Expected long-term rate of return on plan assets [1]	**7.25%**	7.50%	**3.63%**	3.75%	**–**	–

[1] The expected long term return on plan assets is calculated using assets valued at fair value.

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2004, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to be 7.25% in 2005 reducing by 0.75% each year to 4.25% in 2009 and subsequent years (8% in 2004 reducing by 0.75% each year to 4.25% in 2009 and subsequent years).

The Bank has two benefit obligations: one for pension benefits and the other for other employee future benefits. These benefit obligations represent the amount of pension and other employee future benefits that the Bank's employees and retirees have earned by the December 31st prior to year-end. The Bank's pension cost is calculated at this date for the March 31st that follows. Post-retirement benefits are based on valuations at March 31 of the prior year. Post-employment benefits are calculated as at March 31, 2005.

The Bank's actuaries prepare annual valuations of benefit liabilities for pension and other employee future benefits that the employees and retirees of the Bank have earned as at March 31. These valuations are based on Management's assumptions about discount rates, salary growth, expected average remaining service period of active employees, mortality and health care cost trends. The discount rate is determined by Management with reference to market conditions in place at the December 31st immediately prior to the new fiscal year (April 1). Other assumptions are determined with reference to long-term expectations.

($ in thousands except as otherwise indicated)

Sensitivity of Assumptions

The impact of a one-percentage-point increase and a one-percentage-point decrease in the key weighted-average economic assumptions used in measuring the pension benefit liability, the supplemental pension plans and the other plans liabilities and their related costs are summarized in the table below.

	Registered pension plan cost	Supplemental pension plans cost	Other plan cost
Increase (decrease) in			
Expected rate of return on assets	7.25%	3.63%	n.a.
Impact of: 1% increase	(4,451)	(16)	n.a.
1% decrease	4,451	16	n.a.
Discount rate	6.25%	6.25%	6.25%
Impact of: 1% increase	(7,211)	(692)	(12)
1% decrease	12,238	841	81
Rate of compensation increase	3.85%	3.85%	3.85%
Impact of: 0.25% increase	677	49	21
0.25% decrease	(658)	(47)	(22)
Assumed overall health care cost trend			
Impact of: 1% increase	n.a.	n.a.	9,870
1% decrease	n.a.	n.a.	(6,848)

20 - RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

21 - SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in Notes 6 and 8 respectively.

22 - COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2005.

Five-Year Operational and Financial Summary

for the years ended March 31 ($ in thousands)

OPERATIONAL STATISTICS	2005	2004	2003	2002	2001
LOANS AND VENTURE CAPITAL					
Total financing committed					
as at March 31					
Amount	**$ 9,618,535**	$ 8,844,758	$ 8,025,719	$ 7,201,137	$ 6,352,838
Number of clients	**24,571**	22,966	21,897	20,780	19,664
Committed to lending clients					
as at March 31					
Amount	**$ 9,014,146**	$ 8,354,022	$ 7,595,964	$ 6,826,948	$ 6,056,761
Number of clients	**24,369**	22,796	21,733	20,625	19,533
Committed to investment clients					
as at March 31					
Amount	**$ 604,389**	$ 490,736	$ 429,755	$ 374,189	$ 296,077
Number of clients	**202**	170	164	155	131
Total financing authorized					
Net amount	**$ 2,409,707**	$ 2,191,459	$ 2,124,596	$ 1,845,425	$ 1,647,032
Number	**7 603**	7,338	6,387	5,806	5,173
Lending authorized					
Net amount	**$ 2,266,588**	$ 2,082,647	$ 2,031,907	$ 1,739,404	$ 1,532,870
Number	**7,523**	7,268	6,326	5,743	5,102
Investments authorized					
Net amount	**$ 143,119**	$ 108,812	$ 92,689	$ 106,021	$ 114,162
Number	**80**	70	61	63	71
FINANCIAL STATISTICS					
Net interest income and other income as a percentage of average loan portfolio	**5.7%**	5.8%	5.8%	5.9%	5.8%
Provision for credit losses as a percentage of average loan portfolio	**0.7%**	1.7%	1.5%	1.7%	2.0%
Operating and administrative expenses as a percentage of average loan portfolio	**2.8%**	2.8%	2.8%	2.9%	3.1%
Efficiency ratio	**48.5%**	48.7%	47.8%	48.5%	52.6%
CONSULTING REVENUE	**$ 18,924**	$ 20,006	$ 18,221	$ 18,189	$ 17,724

Five-Year Operational and Financial Summary

FINANCIAL INFORMATION		2005		2004		2003		2002		2001
STATEMENT OF INCOME										
for the years ended March 31										
Net Income (loss)										
Loans	**$**	**172,518**	$	92,555	$	94,507	$	80,458	$	37,254
Consulting	**$**	**(2,887)**	$	(3,135)	$	(3,142)	$	(5,748)	$	(5,100)
Venture Capital	**$**	**(56,143)**	$	(30,299)	$	(59,485)	$	(20,977)	$	56,168
Net Income	**$**	**113,488**	$	59,121	$	31,880	$	53,733	$	88,322
BALANCE SHEET										
as at March 31										
Loans, net of allowance for credit losses	**$**	**7,582,838**	$	6,977,544	$	6,288,636	$	5,669,513	$	5,054 254
Venture capital investments, net of accumulated write-down of investments	**$**	**383,649**	$	345,624	$	301,945	$	271,064	$	206,360
Total assets	**$**	**9,445,161**	$	8,809,218	$	7,791,359	$	6,897,204	$	6,225,518
Total shareholder's equity	**$**	**1,569,569**	$	1,218,459	$	1,170,017	$	960,320	$	923,304
Total liabilities	**$**	**7,875,592**	$	7,590,759	$	6,621,342	$	5,936,884	$	5,302,214
Average loan portfolio	**$**	**7,756,821**	$	7,136,429	$	6,402,284	$	5,749,376	$	5,194,279

Corporate Governance

CORPORATE GOVERNANCE: STRENGTHENING CONTROLS AND ACCOUNTABILITY

BDC's corporate governance is founded on ethics and the collective will of our Directors, Management and employees to express our corporate values in their professional conduct.

BDC is committed to strong governance and has improved its structure and processes in recent years. In the face of the significant evolution of governance and ethics in the private sector, as well as the findings of the Auditor General's November 2003 audit report on the Sponsorship Program, the Board implemented in fiscal 2005 a wide range of measures to further strengthen BDC's transparency, oversight and accountability regime.

The Auditor General, in her special examination report of BDC made public in July 2004 (available on BDC's Web site under Governance), stated that BDC "has the core elements of a good governance framework" and that it "has invested a significant amount of effort in developing and modernizing its governance structure."

When the Treasury Board of Canada issued its Report on the *Review of the Governance Framework for Canada's Crown Corporations* in February 2005, BDC was pleased to have been able to report that it had implemented most of the measures applicable to Crown corporations.

[illegible]

BDC governance policies are designed to help the Board supervise Management and approve the direction in which Management proposes to take BDC, while keeping in mind BDC's public policy mandate, as well as its culture of sound and ethical business principles.

The 12-member Board derives its strength from the background, diversity, qualities, skills and experience of its members.

The Board is responsible for the following matters.

[illegible]TEGIC PLANNING

The Board participates annually in a strategic planning session organized and managed by the Senior Management Team. This is a key milestone of BDC's annual strategic planning process that culminates in the tabling with the shareholder of BDC's Board-approved annual five-year Corporate Plan. The Corporate Plan sets out BDC's goals for operating commercially and profitably on a pan-Canadian basis, and helping to create and foster the development of Canadian SMEs.

Throughout the year, the Board monitored the implementation and effectiveness of the Corporate Plan.

RISK MANAGEMENT

Recognizing that evaluation of risk is a dynamic exercise and that the environment BDC operates in is in a state of constant evolution, the Board examined the principal credit, market and operational risks which may impact BDC and approved the process proposed by Management to monitor and manage them. The Board also conducted a comprehensive review of the "group limits" i.e., the lending limits offered to businesses according to their risk rating level and adopted new guidelines.

A Treasury Risk Policy governing the measurement, monitoring and mitigation of financial and business risks in Treasury activities was also reviewed and approved by the Board.

SUCCESSION PLAN AND EVALUATION OF MANAGEMENT PERFORMANCE

The Succession Plan, updated annually, was reviewed by the Human Resources Committee and approved by the Board. It identified all critical and key positions and provided for the selection of potential candidates and the development of personnel for these positions. The evaluation and compensation of the top management team was also approved by the Board.

INTEGRITY OF INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board reviewed and enhanced the Audit Committee Terms of Reference and confirmed its commitment to the principle of independence by confirming the direct reporting of all audit functions (internal and external) to the Audit Committee.

The Board delegated to the Audit Committee the responsibility to oversee the review of complaints regarding all disclosure of wrongdoing. Reports on the results of investigations of wrongdoing are to be provided to the Audit Committee on an ongoing basis.

The Board monitored the implementation of the CREM project which will significantly improve the client management information systems.

COMMUNICATION AND STAKEHOLDER RELATIONS

A comprehensive communication plan entitled "Trust and Confidence – Earning it Back" was communicated to the Board. The plan is aimed at developing and maintaining a productive and harmonious relationship with the shareholder and other stakeholders. Monitoring of progress against this plan was performed by the Board through regular management reports on this matter at Board meetings.

The Board ensures open disclosure of financial information by approving the Annual Report on BDC's operations and, as required by law, submitting it to the shareholder and, ultimately, to Parliament.

GOVERNANCE IN GENERAL

The Board made numerous enhancements to BDC's framework of governance in 2005. It approved early in fiscal 2005 a plan of action and incorporated practices drawn from the private sector making BDC a leader in the field.

First, BDC employees reaffirmed their fundamental values (ethics, client connection, team spirit, accountability, work/life balance). The Board subsequently approved a new Board Code of Conduct, as well as an improved and updated Employee Code of Conduct, Ethics and Values which incorporates BDC's fundamental values. The Employee Code of Conduct applies to all employees, including the President and CEO. These two codes set out the principles that guide and shape our business activities: compliance with the law, honouring trust, fairness, objectivity, integrity and corporate and individual responsibility. These codes also contain provisions for dealing with sensitive and complex situations, such as disclosure of information on wrongdoing.

The Board reviewed and approved the rules on personal trading of employees, maintaining the strictest standards for BDC employees. It is also reviewing and updating the personal trading rules and processes applying to Directors. In response to the Auditor General's audit report on the Sponsorship Program released in November 2003, the Board approved a policy relative to any transaction involving BDC and other government departments and agencies so as to ensure that any such transactions are brought to the Board for approval.

Very early in fiscal 2005, a Nominating Committee and a Special Committee were created and their terms of reference approved. The Nominating Committee identified criteria and competencies required for its Chairperson, Directors, President and CEO positions and communicated them to the shareholder. After accomplishing its mission, the Special Committee was dissolved later in the year.

Improvements to timely access to relevant information needed by Directors to discharge their duties were made by Management throughout the year. Directors receive a comprehensive package of information before each Board and committee meeting, as well as executive summaries. After each committee meeting, the full Board receives a report on the committee's work.

The Board met 12 times during the year. These meetings were held in four different locations across Canada. As shown in Board reports, attendance levels at Board meetings are very high.

The Board continued to promote open communications with Management, enabling senior management to participate in Board meetings. The Board also held in-camera sessions at the conclusion of each meeting to foster open and frank discussions outside the presence of Management.

Once they are appointed, directors attend a briefing session and meet all members of senior management to receive the information they need about BDC's operations to properly carry out their responsibilities. In addition, directors can contact members of senior management at any time to obtain the additional information they require to fulfill their mandate. They are invited to participate in activities and professional development workshops on corporate governance or other topics related to their responsibilities. The Board approved a new Policy on Director Orientation and Continuing Education to formalize its commitment to excellence and allow it to discharge its responsibilities effectively.

The Board delegates part of its work to seven committees.

- Governance Committee
- Audit Committee
- Human Resources Committee
- Pension Fund Committee and the Trustees of the Pension Fund
- Credit/Investment Committee
- Special Committee (dissolved December 8, 2004)
- Nominating Committee

The Board ensures that five out of these seven committees are composed exclusively of Directors who are not part of Management. However, the Credit/Investment Committee includes the President and CEO whereas the Pension Fund Committee and the Trustees of the Pension Fund include the President and CEO, two BDC officers and one pensioner. These committees review and supervise various matters that the Board refers to them. All committees report regularly to the Board on their activities and submit their recommendations and resolutions to the Board for approval. A brief description of their main responsibilities and achievements for fiscal 2005 follows.

BDC BOARD COMMITTEES

Governance Committee

The Governance Committee met six times in fiscal 2005.

The Committee was responsible for reviewing the following policies which were adopted by the Board in 2005.

- Internal Disclosure of Information Concerning Wrongdoing in the Workplace
- Employee Code of Conduct, Ethics and Values
- Board Code of Conduct

It reviewed and approved new terms of reference for the following committees.

- Audit Committee
- Nominating Committee
- Special Committee
- Governance Committee

It conducted a formal evaluation of the effectiveness of the Board, its committees and its Chairperson, and submitted the conclusions to the Board. It reviewed and recommended for Board approval, the Orientation and Continuing Education Policy for Directors and the Policy on Personal Trading for Employees.

The composition of various committees was assessed and recommendations were made to the Board in that regard.

Chairperson: Cedric E. Ritchie
Members: Cynthia Desmeules-Bertolin, Louis J. Duhamel, John Hyshka, Kelvin K. M. Ng, Valerie Payn
(Composition as at May 24, 2005)

Nominating Committee

In accordance with Treasury Board instructions, the Board established at its May 27, 2004 meeting a Nominating Committee to follow a new merit-based appointment process for its CEO.

Chairperson: Terry B. Grieve, CA
Members: Louis J. Duhamel, James A. Durrell, Roslyn Kunin, Cedric E. Ritchie
(Composition as at March 30, 2005)

The Nominating Committee merged with the Governance Committee on May 24, 2005.

Audit Committee

The Audit Committee met seven times in fiscal 2005 and oversaw the finalization of the Special Examination. BDC is required by the *Financial Administration Act* to undergo a special examination performed by its auditors every five years. The Committee received periodic updates and reviewed the final report together with Management's action plans. During the year, Committee members completed the enhancement to their Terms of Reference and work plan. As part of its responsibility for setting the tone for internal control, the Committee reviewed the revised BDC Code of Conduct, Ethics and Values. In addition, the Committee examined the Internal Disclosure of Information Concerning Wrongdoing in the Workplace, as well as the requirement for reporting to the Committee and monitoring. Responsible for overseeing financial reporting, the Committee assists the Board by reviewing quarterly financial results, the independence of the external auditors and their involvement in the annual financial audit. The financial statements and Management's Discussion and Analysis (MD&A) in the Annual Report are reviewed prior to Board approval. The internal audit and inspection team provides an annual work plan and quarterly reports outlining the results of its work. During the year, the Committee met with the external auditors three times and the internal auditor once in private sessions.

Chairperson: Terry B. Grieve, CA
Members: Trevor Adey, Stan Bracken-Horrocks, Léandre Cormier, John Hyshka, Roslyn Kunin, Leo Ledohowski
(Composition as at May 24, 2005)

Human Resources Committee

The Human Resources Committee is responsible for reviewing and recommending for Board approval programs and practices of Directors with respect to the effective management of human resources and for ensuring their alignment with BDC's corporate objectives while sustaining shareholder value.

On an annual basis, the Committee reviews and recommends the following:

- Human Resources Strategic Plan and objectives
- Major compensation policies and programs, annual corporate performance objectives and achievement against these objectives
- Succession Plan for critical and key positions at BDC
- Summary of performance assessments and annual compensation payments to senior executives.

During fiscal 2005, the Human Resources Committee held six meetings during which several key initiatives were reviewed and approved. The Human Resources Strategic Plan, the implementation of Total Rewards (designed to offer BDC employees a compensation more closely aligned to market practices, as well as more flexibility regarding the BDC Pension Plan) and the introduction of the new pension plan design, the re-design of certain incentive-based plans, BDC's Succession Plan and the annual performance assessments and compensation payments to senior executives were some of the key matters brought to the Board.

Chairperson: Louis J. Duhamel
Members: Trevor Adey, Léandre Cormier, Terry B. Grieve, Kelvin K. M. Ng, Valerie Payn
(Composition as at May 24, 2005)

Pension Fund Committee and the Trustees of the Pension Fund

The Pension Fund Committee and the Trustees of the Pension Fund monitor the activities of the pension fund, ensure that it is administered and financed in accordance with applicable legislation, and verify that any changes to the fund reflect the Committee's terms of reference.

The Committee met four times during fiscal 2005 to review the performance of the fund's investment managers, the financial statements and the actuarial assumptions of the pension plan. Changes were made to the management structure to enhance the fund's financial performance and stability.

Due to improved domestic and international stock markets, the fund reported a positive return on its assets for the year ended December 31, 2004.

Chairperson: Louis J. Duhamel
Members: André Bourdeau, Clément Albert, Cynthia Desmeules-Bertolin, Mary Karamanos, Roslyn Kunin, Leo Ledohowski, Yves Milette, Cedric E. Ritchie
(Composition as at May 24, 2005)

Credit/Investment Committee

The Credit/Investment Committee met 26 times in fiscal 2005. It approved loans and venture capital investments that exceeded Management's delegated authority.

Chairperson: Cedric E. Ritchie
Members: André Bourdeau, Stan Bracken-Horrocks, Léandre Cormier, Terry B. Grieve, Roslyn Kunin
(Composition as at May 24, 2005)

Special Committee

The duties of the Special Committee were basically to assure proper follow-up on matters that could arise concerning a previous President and CEO and to monitor the consequences of the replacement of the President and CEO. After these two outstanding issues were settled, the Special Committee was dissolved at the December 8, 2004 Board meeting.

Board of Directors*

CEDRIC E. RITCHIE, O.C.
CHAIRMAN OF THE BOARD, BDC
TORONTO, ONTARIO

Cedric E. Ritchie, O.C., has been Chairman of BDC since January 2001. Mr. Ritchie was Chairman and CEO of The Bank of Nova Scotia from 1974 until his retirement in 1995. He sits on the boards of several organizations including Canada Post Corporation, Mercedes-Benz Canada and Twin Mining Corporation. Mr. Ritchie is a Fellow of the Institute of Canadian Bankers and Officer of the Order of Canada. He was inducted into the Canadian Business Hall of Fame in 2000.

ROSLYN KUNIN, PH.D., C.M.
PRESIDENT
ROSLYN KUNIN & ASSOCIATES INC
VANCOUVER, BRITISH COLUMBIA

Dr. Roslyn Kunin joined the BDC Board of Directors on May 25, 1999. She is President of Roslyn Kunin & Associates Inc., an economic consulting firm. Previously, she was a regional economist with Employment and Immigration Canada and held several academic positions. Dr. Kunin is past Chair of the Vancouver Stock Exchange and former Executive Director of the Laurier Institution. Dr. Kunin is a Member of the Order of Canada.

ANDRÉ BOURDEAU
ACTING PRESIDENT AND CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENT, FINANCIAL SERVICES AND BDC CONSULTING GROUP
MONTREAL, QUEBEC

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the *Université de Sherbrooke*.

VALERIE PAYN
PRESIDENT
HALIFAX CHAMBER OF COMMERCE
HALIFAX, NOVA SCOTIA

Valerie Payn, who joined the BDC Board of Directors on March 24, 2005, is President of the Halifax Chamber of Commerce, a position she has held since the Chamber was formed in January 1995. Previously, she was the General Manager of the Halifax Board of Trade, making her the first woman to hold the position since its establishment in 1750. Ms. Payn holds an MBA from Saint Mary's University in Halifax, Nova Scotia.

* Our sincere appreciation is extended to the following Directors who have left the Board since our last Annual Report: Leo Cholakis, Jennifer Corson, James A. Durrell, N. Murray Edwards, Gordon J. Feeney, Oryssia Lennie, Barbara Stymiest and Jean-Claude Villiard.

LOUIS J. DUHAMEL
PARTNER
TAKTIK (DIVISION OF SECOR CONSEIL INC.), MONTREAL, QUEBEC

Louis J. Duhamel, who became a BDC Director on April 30, 2003, has held various positions with Secor Conseil Inc., one of Canada's leading management consulting groups. He is currently a partner in Secor's SME division, Taktik, which he co-founded.

KELVIN K. M. NG
PRESIDENT
NG NORTH INC., EDMONTON, ALBERTA

Kelvin Ng, who joined the BDC Board of Directors on April 21, 2005, is President of Ng North Inc., a management consulting firm. Previously, he served as a member of the Legislative Assembly for the constituency of Cambridge Bay in Nunavut as well as being the first Deputy Premier, Minister of Finance and Chair of the Financial Management Board in the Government of Nunavut. Mr. Ng also served two terms in the Legislative Assembly of the NWT as well as holding numerous portfolios in the Government of the NWT. Prior to his involvement in territorial politics, he held numerous senior positions in the private sector in addition to being actively involved in local/territorial chambers of commerce, municipal politics and non-profit organizations. Mr. Ng is the recipient of the Queen's Golden Jubilee Award, awarded for Civic Service in 2002.

Board of Directors

LÉANDRE CORMIER

PRESIDENT AND OWNER
WEST-WOOD INDUSTRIES LTD.
SCOUDOUC, NEW BRUNSWICK

Léandre Cormier became a Director of BDC on August 15, 2002. He is President and owner of West-Wood Industries Ltd. of Scoudouc, New Brunswick which produces high-end custom windows and doors and other value-added wood products for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the president and owner of Georgetown Timber Ltd., of Georgetown, P.E.I.

CYNTHIA DESMEULES-BERTOLIN

SENIOR ADVISOR, METIS NATION OF ALBERTA, EDMONTON, ALBERTA

Cynthia Desmeules-Bertolin, who joined the BDC Board on March 12, 2002, is the legal advisor to the Métis Nation of Alberta on the Aboriginal Rights agenda. Ms. Desmeules-Bertolin is a National Jurist for the PAR (Progressive Aboriginal Relations) Program at the Canadian Council for Aboriginal Business. She has served as a Vice-Chair of the National Aboriginal Economic Development Board federally and as a Director for Apeetogosan Métis Development Inc.

LEO LEDOHOWSKI

PRESIDENT
CANAD INNS, WINNIPEG, MANITOBA

Leo Ledohowski joined the BDC Board of Directors on March 24, 2005. He is President and CEO of Canad Inns, which owns and operates seven hotels in Winnipeg, one in Portage La Prairie and one in Brandon, Manitoba. Previously, Mr. Ledohowski served as a University professor in the Faculty of Commerce at both Carleton University in Ottawa and at the University of Manitoba. He received his Certified Hotel Administrator designation in 1990. Mr. Ledohowski received the Distinguished Service Award from the University of Manitoba in May 2003 and his FCMA, a designation recognizing outstanding contributions to the profession, in October 2003.

STAN BRACKEN-HORROCKS

INCORPORATED PARTNER
PRICEWATERHOUSECOOPERS,
VANCOUVER, BRITISH COLUMBIA

Stan Bracken-Horrocks, who joined the BDC Board of Directors on April 7, 2005, is leader of the Global Forest and Paper Industry Practice at PricewaterhouseCoopers. He studied at the University of British Columbia and later received his Chartered Accountant designation. He has worked with PricewaterhouseCoopers since 1962 and gained extensive experience with board of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is a past president of the Institute of Chartered Accountants. He is active in his community, having served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

TERRY B. GRIEVE, CA

PRINCIPAL, VENTURES WEST MANAGEMENT INC. SASKATOON SASKATCHEWAN

Terry B. Grieve, who joined the BDC Board on April 30, 1996, is a native of Saskatchewan and a principal of Ventures West Management Inc., a private, professional venture capital management firm. He is also Executive Vice President of the Saskfund group of companies.

TREVOR B. ADEY

CEO
CONSILIENT®, ST. JOHN'S
NEWFOUNDLAND & LABRADOR

Trevor Adey, who joined the BDC Board of Directors on April 21, 2005, is CEO of Consilient, a global developer of software for mobile devices and phones. Previously, he was Director of Sales for NewEast Technologies, which grew and evolved into Stratos Global where he was Vice President of Sales and Business Development. Earlier, Mr. Adey was Director of Sales with Infosat Telecommunications in Vancouver, B.C. In May 2005, Mr. Adey was named one of Canada's Top 40 Under 40. Mr. Adey also received the "Emerging Entrepreneur of the Year" Award from Ernst & Young in 2004

Senior Management Team

ANDRÉ BOURDEAU
ACTING PRESIDENT AND CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENT, FINANCIAL SERVICES AND BDC CONSULTING GROUP
MONTREAL, QUEBEC

André Bourdeau has been with BDC since 1973 in positions of increasing responsibility. Among his previous positions, he was responsible for heading up Quebec Operations, was Senior Vice President, Operations for the national network, had responsibility for Management Services in Quebec and was Executive Assistant to the President. Mr. Bourdeau holds a Master's Degree in Business Sciences, Finance, from the *Université de Sherbrooke*.

EDMÉE MÉTIVIER
EXECUTIVE VICE PRESIDENT
INTEGRATED RISK AND TECHNOLOGY MANAGEMENT

Edmée Métivier joined BDC in 2000. She is responsible for Systems and Technology, Credit Risk Management, Treasury, Integrated Risk and Portfolio Management and Aboriginal Banking Services. She came to BDC following a 20-year career with RBC Financial Group. Ms. Métivier is a Board member of Shad International, the Montréal Women's Y Foundation and Precarn Incorporated. She holds an M.A. in Practicing Management from University of Lancaster, England.

GUY G. BEAUDRY
SENIOR VICE PRESIDENT
CORPORATE AFFAIRS
AND CHIEF PLANNING OFFICER

Guy G. Beaudry joined BDC in October 2001. He is responsible for Corporate Planning and Research, Marketing and E-business, Public Affairs, Shareholder Relations and Advertising, Legal Affairs and Corporate Secretariat. Previously, he was Chairman and Chief Executive Officer of Wavepath, a Silicon Valley wireless telecom business unit of Groupe Vidéotron and, earlier, Senior Vice-President, Corporate Affairs, of Groupe Vidéotron. Mr. Beaudry, a Law graduate of the *Université de Montréal*, is a past Chairman of the Board of the Canadian Cable Television Association and an alumnus of Canada's Top 40 Under 40.

MICHEL RÉ
EXECUTIVE VICE PRESIDENT
INVESTMENTS

Michel Ré is responsible for subordinate financing and venture capital activities. He has more than 30 years of experience at BDC, where he has held a wide variety of positions in Financial Services gaining an in-depth knowledge of the needs of entrepreneurs in many sectors of the economy. Mr. Ré holds a Bachelor of Administration degree from the *Université du Québec à Montréal*. He is a governor of the Quebec Venture Capital Association, Board member of Sommet Capital 2000 and was a member of the Board of the Canadian Venture Capital Association.

MARY KARAMANOS
SENIOR VICE PRESIDENT
HUMAN RESOURCES

Mary Karamanos, who joined BDC in October 2002, is responsible for the development and implementation of BDC's human resources strategy. She has over 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a B.A. in Industrial Relations from McGill University and a CCP designation (Certified Compensation Professional) from World at Work. She is active in the community and supports a number of children's charities.

ALAN B. MARQUIS
SENIOR VICE PRESIDENT
FINANCE AND CHIEF FINANCIAL OFFICER

Alan B. Marquis joined BDC in 1995. His responsibilities include Financial Reporting and Control, Financial Planning, Loan Accounting, Middle and Back Office Operations and Real Estate Facilities Management. Before joining BDC, Mr. Marquis was Executive Vice-President of Cast North America Inc., responsible for Finance, Container Operations and Logistics. Previously, he was Chief Financial Officer at Canadair Limited. Mr. Marquis holds a Bachelor of Commerce degree from the University of Edinburgh, Scotland and is a member of the Institute of Chartered Accountants of Scotland.

Glossary

ALLOWANCE FOR CREDIT LOSSES
Represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

CONSULTING REVENUE
Fees from services provided by BDC's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

DEBT TO EQUITY RATIO
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of BDC's debt to equity ratio may not exceed 12:1.

DERIVATIVES FINANCIAL INSTRUMENTS
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

DIRECT INVESTMENTS
Represents the investments made by BDC directly in the investee companies.

EFFICIENCY RATIO
A measure of the efficiency with which BDC incurs expenses to generate income on its loan operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

GENERAL ALLOWANCE
Established by Management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

HEDGING
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

IMPAIRED LOANS
Loans where, in Management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

INVESTMENT INCOME
Income generated from BDC's venture capital investments, such as interest, dividends, and net realized gains on divestitures.

MASTER NETTING AGREEMENT
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

NET INTEREST AND OTHER INCOME
The difference between what is earned on loan portfolio assets and securities, and what is paid on borrowings.

NET MARGIN
Is the net interest and other income earned by the performing loan portfolio, expressed as a percentage of the total average loan portfolio.

PERFORMING PORTFOLIO
Loans for which there is reasonable assurance of the timely collection of principal and interest.

PERMANENT IMPAIRMENT
Investments become permanently impaired, in Management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

PROVISION FOR CREDIT LOSSES
A charge to income that represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

RETURN ON COMMON EQUITY (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

SPECIFIC ALLOWANCE
Established by Management to recognize credit losses in the existing loan portfolios, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

SWAPS
Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

WRITE-DOWN
To recognize the loss when the value of a venture capital investment is permanently impaired.

BDC FINANCING

BDC Financing offers the right type of financing at all stages of development, from start-up to expansion. Specialized financing solutions provide support for fast-growing clients in market segments, such as manufacturing, exporting, and knowledge-based sectors.

TERM FINANCING

Financing for a complete range of longer-term needs for capital expenditure or liquidity, such as plant expansion or new machinery and equipment.

CO-VISION LOANS

Financing for start-ups aimed at supporting entrepreneurs who need equipment or working capital (up to $100,000) to start their business.

PRODUCTIVITY PLUS LOANS

Financing (up to $5 million) for new or used equipment and machinery geared to improve the productivity of the business.

INNOVATION FINANCING

Working capital loans (up to $250,000) to finance business growth and support the development and implementation of innovation strategies.

CORPORATE FINANCING

BDC's Corporate Financing strategy ensures that BDC can accompany the growth of its clients. It also provides support for medium-sized firms that fall outside the risk appetite of other lenders.

BDC CONSULTING

BDC Consulting offers a wide range of customized consulting services supporting the operational efficiency, quality, management and growth aspects of SMEs. These services are delivered via a national network of private consultants.

BUSINESS, STRATEGIC AND FINANCIAL PLANNING

A comprehensive plan offered to start-ups and more mature businesses, and that includes solutions to help assess current operations, improve company management and evaluate the financial viability of projects and financial needs.

SUCCESSION PLANNING

Succession Planning targets small businesses or family enterprises whose principals are planning to retire in the next 3 to 5 years. It includes a leadership analysis, a company analysis and a complete action plan to deal with this situation.

LEAN MANUFACTURING (INCLUDES REVIEW OF OPERATIONAL PROCESSES, KAIZEN, PLAN LAYOUTS)

The Review of Operational Processes (ROP) is a consulting service that supports the productivity improvements of a business by providing an in-depth assessment of a firm's operations management process, which involves an action plan specifically tailored to the firm's needs.

MARKETING

Companies seeking concrete information on their industry, competition and market opportunities can benefit from a Market Research solution. It helps firms to successfully launch a new product or tap into new markets.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Establishes effective organizational structures, HR policies and procedures - hiring, compensation, benefits, performance management, and job training – to match growth and help firms attract, retain, and develop employees.

GROWTH POTENTIAL ASSESSMENT

BDC's unique growth potential assessment (GPA) provides an objective, cost-effective and time-friendly diagnosis of a company, from top to bottom. The objective is to show where improvements can be made and how to maximize business strengths and minimize weaknesses that could hinder success.

QUALITY MANAGEMENT: ISO AND HACCP

BDC offers specialized solutions – including ISO certification and HACCP – to export-based companies or those seeking new exporting opportunities in the food, automotive and aerospace industries, as well as those whose operations have an impact on the environment.

GOING GLOBAL – EXPORTING STRATEGY

Going Global's step-by-step approach to exporting provides practical, authoritative information to help evaluate export potential and readiness. This solution is offered through group seminars or individual counselling with an export advisor who helps adapt the concepts to a specific firm.

BDC INVESTMENTS

BDC Investments offers its services via two branded customer facing units: venture capital **(BDC Venture Capital)** and subordinate financing **(BDC Subordinate Financing)**.

BDC Venture Capital Investments works as a complementary lender and investor in the Canadian marketplace. It offers both venture capital and subordinate financing solutions.

BDC Venture Capital operates as an "evergreen" source that has the financial capacity to support young technology companies from the seed stage to public market. It acts as a catalyst in the venture capital industry through direct and indirect investing. Through direct investments, BDC Venture Capital leverages capital from other venture capitalists to finance early-stage new technology Canadian companies. Through indirect investments, BDC Venture Capital supports the development of a broader base of new private fund managers in Canada.

BDC Venture Capital is the only venture capitalist with a pan-Canadian presence. It has more than 35 dedicated professionals with specialized backgrounds who operate throughout the country. BDC Venture Capital is an early-stage technology investor that focuses on the smaller end of the market i.e., first round investments between $500,000 and $3 million.

Subordinate financing is being offered via **BDC Subordinate Financing**. It is a hybrid instrument incorporating elements of both debt financing and equity financing. BDC Subordinate Financing has consistently played a leadership role in this market and complements the small number of lenders by focusing on fast-growing, innovative companies.

85 branches

to serve you better

ALBERTA

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Phone (403) 292-5600
Fax (403) 292-6616

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Calgary, Alberta T2E 7C8
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Fax (403) 292-6651

Calgary South
Sovereign Building
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Calgary, Alberta T2H 0L3
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Fax (403) 292-4345

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BDC

Banking on Canadian entrepreneurs

Annual Report

April 2005 – March 2006

Entrepreneurship The ability to **create** and **grow** where others fail to see the opportunity to do so. The **willingness** to take calculated risks to reach goals.

Development **Developing** your idea or innovation into a business plan and a successful company. BDC accompanies Canadian entrepreneurs through every stage of their business' **development**: new processes and innovation for greater productivity, new and expanded markets, exports, successful transitions. *Good planning brings* **development** *and growth.*

Canada

MANDATE

BDC's mandate, as set out in the *Business Development Bank of Canada Act* (BDC Act) of 1995, is to support Canadian entrepreneurship by providing financial, consulting and venture capital services.

MISSION

To help create and develop Canadian small and medium-sized businesses through timely and relevant financial, venture capital and consulting services.

VISION

To make a unique and significant contribution to the success of dynamic and innovative entrepreneurship for the benefit of all Canadians.

CORE VALUES

To uphold the core values that define BDC and strengthen its corporate culture: ethics, client connection, team spirit, accountability and work/life balance.

Table of contents

WHO WE ARE

Business Development Bank of Canada (BDC) is a Crown corporation created by Parliament and wholly owned by the Government of Canada. We are accountable to Parliament through the Minister of Industry.

WHAT WE DO

We promote entrepreneurship by providing financing, consulting and venture capital services to Canadians who are creating and growing small and medium-sized enterprises (SMEs).

WHY WE DO IT

It is in the public interest to promote entrepreneurship and support the development of small and medium-sized business in Canada. Successful entrepreneurs make a crucial contribution to prosperity, from which all Canadians benefit.

KEY SERVICES

BDC Financing

Long-term loan financing designed particularly to support business growth, start-ups and innovation strategies, and to offer equipment financing for modernization purposes.
(Note: this includes subordinate financing.)

BDC Subordinate Financing

Hybrid instrument combining elements of both debt financing and equity financing, which is offered to more mature businesses with excellent growth potential.

BDC Venture Capital

Equity investments to cover every stage of a company's development cycle, from seed through expansion, with a focus on early-stage and fast-growing businesses in four target sectors: life sciences, telecommunications, information technology and advanced technologies.

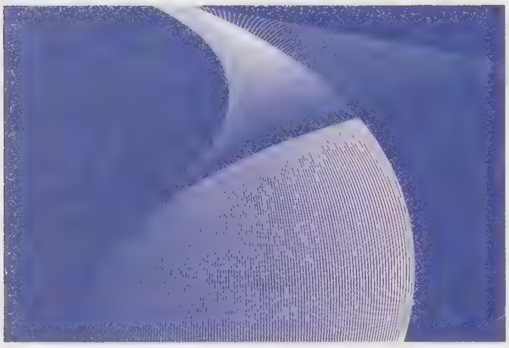
BDC Consulting

Customized business consulting services delivered through a national network of professional consultants and designed to help Canadian entrepreneurs maximize their management savvy.

BDC Connex®

Offers Canadian entrepreneurs a variety of online services and handles many BDC alliances and partnerships, such as the partnership agreements with Community Futures Development Corporations (CFDCs).

Creation *Start a business by* **developing** a business plan.



Commercialization *Take a new idea to market and* **develop** *a strategic plan* to turn it into a successful company.

Innovation and productivity

Consulting services can help **develop** a strategic plan to meet today's many competitive challenges.

Growth **Develop** *new markets* with sound financial plans and export strategies.

Succession *BDC can help* **develop** *and implement* a business ownership transition plan.

Human Resources *Investing in human resource management* is key to business **development**.

CHAIRMAN'S MESSAGE

BDC has had a very successful year. In fulfillment of its mandate, it provided support to 26,000 Canadian entrepreneurs. It did this in an efficient, commercially viable way, which will enable the return of a $21 million dividend to the government.

BDC supports entrepreneurship by helping Canadians create and grow their small and medium-sized businesses. This is BDC's raison d'être; their success is our success.

Cedric E. Ritchie
Chairman
of the Board

The responsibility of the Board of Directors is stewardship. We ensure that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an ethical, efficient and effective way. We are accountable to Parliament through the Minister of Industry.

Our key tasks are to:

- ensure the highest standards of corporate governance policy and practice
- approve the strategic direction of BDC's Corporate Plan
- ensure BDC has identified its principal risks and adopted the right systems to manage these risks
- review and approve management's succession plan (including appointing, training and monitoring senior management)
- ensure BDC's information systems and management practices meet its needs and give us confidence in the integrity of the information produced
- oversee communications and public disclosure
- set BDC's human resources policies and practices.

We welcome the reports of the Auditor General of Canada and the President of the Treasury Board. We use these, with industry best practices, to ensure our systems and practices reflect the highest standards possible.

This year, the Board was actively involved in the recruitment of BDC's president. We clarified the requirements of the role, defined the qualifications that candidates should possess and hired an executive recruitment firm to find the right person. The process secured a very qualified candidate with varied experience in the private sector, Jean-René Halde. The government confirmed Mr. Halde as president in June.

BDC now has new performance indicators to monitor how it fulfills its public policy mandate over the long term. This performance framework will complement BDC's existing performance measures. See page 20 for more details.

New Board members must have a complete and accurate understanding of their role and responsibilities. Upon joining, they receive orientation and briefings. As members, they receive ongoing education on governance, as well as on any issue that they deem pertinent to their role and that they request. We annually examine and re-approve the Board Code of Conduct.

I would like to extend my deep appreciation to the following BDC Directors who have left the Board: James Durrell, Roslyn Kunin, Oryssia Lennie and Jean-Claude Villiard.

On behalf of all Board members and the dedicated, hardworking employees of BDC, I would like to thank Parliament for the privilege of acting in this role. Being part of BDC's contribution to Canadian society is an honour as well as a responsibility.

Cedric E. Ritchie

PRESIDENT'S MESSAGE

It was an honour to join BDC's proud, 62-year history of contribution to the public good by becoming its president in June 2005. I bring to this role more than 30 years of private sector experience.

Jean-René Halde
President and Chief Executive Officer

In creating BDC, Parliament created an autonomous, flexible instrument of public policy to promote entrepreneurship by supporting Canadians who are starting and growing their own businesses. I trust you will find this Annual Report answers questions you might have about how we are translating our mandate into ethical, efficient and effective operations.

BDC is a development bank for Canadian SMEs. We provide services – lending, consulting and venture capital – to Canadian entrepreneurs. We do so in a commercially viable way and do not receive an annual subsidy from Parliament.

Management Results

This past year was outstanding. Our unique and valued relationships with Canadian entrepreneurs garnered a client satisfaction rate of 92%

In total, BDC has $10.3 billion committed to 26,000 clients. Most of this, $9.7 billion, is in loans and subordinate financing. It also includes $655 million committed to our venture capital clients. These investments work to turn new ideas and innovations into successful companies. Our consulting revenues reached $21.6 million, and we plan to expand our consulting reach and offering.

Last year, our return on common equity was 9.2%. This will translate into a dividend payment of $21 million to our shareholder, the Government of Canada. Since 1997, we have also paid $98 million in dividends to the government.

Public Policy Indicators

In response to the government's stated desire to reassert the public policy role of Crown corporations, we have developed a framework of new indicators to track BDC's long-term fulfillment of its public policy mandate.

We intend these to be as rigorous and helpful as possible. Please note, however, that they are a work in progress. Should we determine that they are less helpful than they might be, we will amend or dispose of them. If we craft other indicators of greater usefulness or validity, we will add them. I encourage you to read more on page 20.

Public Policy Issues

BDC has only one client: Canadian SMEs. We are attuned to their needs and among the first to detect issues that affect them. This focus – as well as our ongoing business relationships with 26,000 of them – enables us to amass a wealth of information about them and their growth over time.

SME growth depends on competitiveness. One challenge they face is the persistently higher economic productivity of our most important trading partner, the U.S. They also face pressures caused by the rise of large, productive workforces in countries such as China and India. If Canadian SMEs are to survive and prosper long term, they must be globally competitive and seize the opportunities presented by the purchasing power of the rising middle classes in other countries.

Business ownership transition – Canada's population is ageing. Many of our small business owners are reaching retirement age without having planned for the change in the ownership and management of their companies.

At risk is their survival. Managed well, business ownership transitions can ensure the company continues to prosper.

Unplanned or poorly managed, however, they can cause the company to falter or become ripe for sale to interests outside the country. These scenarios imperil the entrepreneur's main retirement asset and can cause real disruption in the community in which the company operates. A major obstacle is financing. BDC provides this, plus expertise in business ownership transition.

The public policy response to an issue of this scale and complexity will require contributions from several quarters. BDC has considerable experience and expertise and would welcome the opportunity to join any discussion that focuses on it.

A persistent, complex issue: turning ideas into competitive companies – Canada's recipe for long-term prosperity must include globally successful SMEs that specialize in highly innovative sectors such as the life sciences and information technology. The commercialization of the fruits of research and development – turning new ideas or lab discoveries into attractive products and successful companies – takes time, money and a range of separate, sophisticated skills.

Between discovery and commercial success, there are several challenges: determine a commercial application, create and manage a company well, do market research, build a prototype, produce, distribute and sell. And, last but not least, attract venture capital to finance the solutions to these challenges.

BDC helps Canadian entrepreneurs meet many of these challenges. Acting in complementary fashion to other market players, we do business that accounts for approximately 50% of all seed investments across the country. We are proud to be part of this important activity and invite you to read more on page 16.

Since my arrival at BDC, I have been consistently impressed by the talent, professionalism and dedication of its employees. As a team, they create a value that is well-known to our clients. Their effective, efficient and reliable support of Canadian entrepreneurs is a contribution to the public good of which Parliament can be proud.

On behalf of all of us at BDC, I wish Michel Ré a well-deserved retirement after 33 years of dedicated service. His legacy is impressive! He built BDC Venture Capital into the business it is today. Our heartfelt thanks.

Jean-René Halde
President and Chief Executive Officer

OBJECTIVES, MEASUREMENTS *and* TARGETS

BDC's balanced scorecard is built on the following perspectives: clients, employees, efficiency and financial sustainability. This approach translates BDC's objectives and strategies into coherent sets of performance measurements and ensures integrated risk management of BDC's business risks.

CORPORATE OBJECTIVES

Clients – To create a unique and valued relationship with Canadian entrepreneurs, to support the creation of their businesses and accompany their growth (measured by client satisfaction).

Employees – To foster a culture of engagement, learning and growth (measured by employee engagement).

Efficiency – To establish effective and efficient operating and administrative expenses as a percentage of net interest and other income (measured by the efficiency ratio).

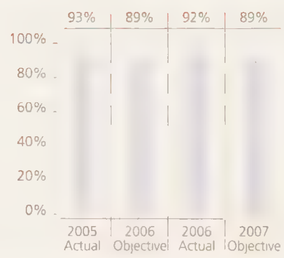
Financial Sustainability – To fulfill its public policy mandate, BDC has to be profitable to fund the growth of its portfolio, generate a return on common equity at least equal to the government's average long-term cost of funds and be able to withstand unfavourable economic circumstances without requiring government funding.

PERFORMANCE AND CORPORATE OBJECTIVES

PERFORMANCE

Client Satisfaction

- The continued emphasis on innovative products and continued strong client contact maintained satisfied or very satisfied customers at 92%.



Employee Engagement

- The Employee Engagement Survey showed a rebound to 78%, an increase of 4% from 2005 and equal to the objective.

Efficiency Ratio*

- Slightly higher than 2005, due to increased pension costs, and an increase in operating costs in order to gear up for future growth.

* The lower the ratio, the higher the efficiency achieved

2007 OBJECTIVES

Client Satisfaction

- Client Satisfaction: 89%
- The year-to-year objective for client satisfaction is maintained at 89%.

Employee Engagement

- Employee Engagement: 78%
- Continued open communications
- Leadership initiatives
- Enhance workforce diversity.

Efficiency Ratio

- Ratio: 49.7%
- Higher ratio due to staff increases and a $9 million increase in pension costs
- Efficiency gains are expected from new disbursement procedures.

** Represents new internal 07 objective Corporate Plan: 51%

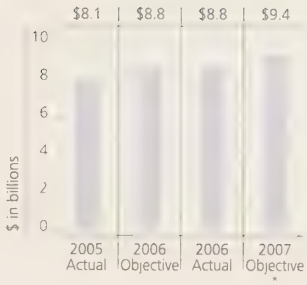
PERFORMANCE

2007 OBJECTIVES

Financial Sustainability

Outstanding financing portfolio

- A record $2.5 billion in financing authorizations in fiscal 2006 drove the portfolio to $8.8 billion, an increase of $0.7 billion.

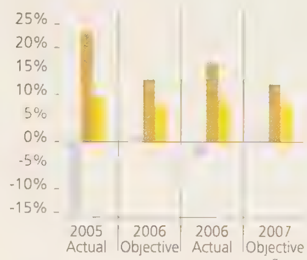


- Portfolio: $9.4 billion
- Increased risk tolerance through Co-Vision Loans, Productivity Plus Loans and Innovation Financing
- Partnership agreements with CFDCs and *Caisse de dépôt et placement du Québec*.

* Represents new internal 07 objective
Corporate Plan: $9.0 billion

Return on Common Equity

- The total BDC ROE of 9.2% was slightly lower than the 9.7% of 2005, but was significantly higher than the 7.7% objective. This is due to the continued strength of the financing portfolio and the improved performance of BDC Venture Capital.



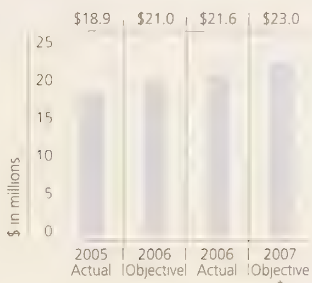
	2005 Actual	2006 Objective	2006 Actual	2007 Objective
Venture Capital	(14.9%)	0.6%	(2.6%)	0.5%
Financing and Consulting	23.3%	13.4%	17.0%	12.4%
Total BDC	9.7%	7.7%	9.2%	8.2%

- ROE: 8.2%
- Generate an ROE at least equal to the government's average long-term cost of funds
- ROE is expected to decline as provisions for loan losses are expected to return to more normal levels.

* Represents new internal 07 objectives
Corporate Plan: 0.9% – Venture Capital
11.3% – Financing and Consulting
7.5% – Total BDC

BDC Consulting Revenue

- BDC recorded consulting revenues of $21.6 million, a 14% increase from 2005 and 3% higher than objective.

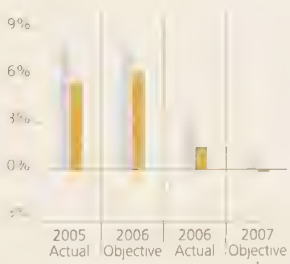


- BDC Consulting revenue from activities: $23 million
- Increased revenues due to the integrated approach with financing products and investment in resources.

* Represents new internal 07 objective
Corporate Plan: $22.0 million

BDC Venture Capital 10-year IRR

- IRR on total investments of 1.5% versus 5.6% in 2005 and the planned 6.3%
- Lack of divestiture over the past five years has forced down the IRR.



	2005 Actual	2006 Objective	2006 Actual	2007 Objective
Direct investments	7.9%	7.9%	3.3%	1.2%
Total investments	5.6%	6.3%	1.5%	(0.1%)

- Direct investments: 1.2%
- Total investments: -0.1%
- Continue to hold the course as a leader in the Canadian venture capital industry of early-stage technology
- Seek opportunities for divestiture of profitable holdings.

* Represents new internal 07 objectives
Corporate Plan 3.1% – Direct
2.0% – Total

BDC BEST PRACTICES

INTERNATIONAL RECOGNITION BDC's business model and success attract interest from around the globe. This year we received delegations from Finland, Japan, Korea and Puerto Rico.

BDC welcomes a delegation from Korea. From left to right: Sung Kyu Kim, Patrice Bernard, Edmée Métivier, André St-Pierre, Heung Kwon, Stephen Korte, Mary Karamanos, Daniel Martel, Jason Moscovitz, Michel Leduc, Michel Ré, Charles Cazabon, Richard Morris, Young Tae Jung.

Annette Montoto, President and Vilma Pellot, Senior Vice President for Financing and Development and Credit Risk Manager, Economic Development Bank of Puerto Rico with Sylvain Savaria, Ngoc-Hung Vu, Steve Abrams, Charles Cazabon and Karl Reckziegel, BDC Venture Capital.

LOCAL RECOGNITION BDC's employees are a remarkably effective, dedicated group. Here is a sampling of the awards that their professional and philanthropic contributions garnered over the past year

Human Resources Department for the Retirement Communication Program
MERCOMM, INC. – 5TH ANNUAL INTERNATIONAL iNOVA AWARDS COMPETITION
This award honours excellence in corporate Web sites

Human Resources Department for the "Your Retirement" program
INTERNATIONAL ACADEMY OF COMMUNICATIONS ARTS AND SCIENCES MERCURY AWARDS
The award was given in the category "Campaigns – Internal Communications"

Human Resources Department for the relaunch and redesign of its "Your Retirement" Web site program
2006 ASTRID Award, international competition
The award recognizes and promotes design

Kitchener Branch – Gold in Top Performer Awards (Banking Category)
LOCAL *BUSINESS TIMES* PUBLICATION
The ranking was a result of an e-mail vote run by the newspaper

Halton Branch – Champion Recognition Award
OAKVILLE CHAMBER OF COMMERCE
The award was presented at the Chamber Champion Recognition Award Dinner

Mylène Viau, Laval
ICB Gold Medal and Trust Institute Award
INSTITUTE OF CANADIAN BANKERS AND TRUST INSTITUTE
The award recognizes completion of a small business studies program

Human Resources
Learning Strategies Achievement Award
CANADIAN SOCIETY FOR TRAINING AND DEVELOPMENT, QUEBEC CHAPTER

Thierry Limoges, Montréal
Leadership Award
MULTIPLE SCLEROSIS SOCIETY OF CANADA

Tony Van Bommel, Halifax
Volunteer of the Year for Junior Achievement Nova Scotia
JUNIOR ACHIEVEMENT OF NOVA SCOTIA

SMEs: The ECONOMIC Environment

SMEs IN CANADA

There are over one million SMEs with employees in Canada.

- 98% are small
- **2%** are medium-sized

SMEs employ about 60% of the working population.

SMEs are responsible for close to half of Canada's economic activity.

Industry Canada's definition of SME:
Micro business: fewer than 5 employees
Small business: fewer than 100 employees
Medium-sized business: 100-500 employees

Increasingly, economic growth = trade.
In almost every one of the past 55 years, the volume of world merchandise trade has gone up.

SMEs' ECONOMIC ENVIRONMENT

In general, and compared to most G8 countries, Canada's economy is a healthy environment in which to create and do business.

Canada, once again, had one of the fastest growth rates and highest living standards among industrialized countries. It is the only industrialized country with a fiscal surplus, a declining public debt and historically low inflation and interest rates.

Canada's economy grew by 2.9% in 2005. This expansion was helped by strong consumer spending, rising business investment and growth in the global economy.

In 2005, Canada's trade surplus was $66 billion, almost unchanged from 2004. Increased exports of industrial goods and energy products added $12 billion to the surplus. However, the contribution of automotive, forestry and machinery and equipment sales fell by $8 billion.

In 2005, Canadian companies had strong balance sheets and high capacity utilization rates. Profits were 14.5% of GDP, a record high, and the industrial capacity utilization rate was 86.1%. The environment was ripe for a 10.7% increase in real investment in machinery and equipment and a new upward trend in non-residential construction.

Wilson's SHOPPING CENTRE | Barrington Passage, Nova Scotia

David Wilson
President

"Our family-owned business goes back three generations, beginning when my grandfather bought a small general store in 1924. Today, we run one of the largest home hardware building centres in the country. Although I'm not ready for retirement yet, I thought it was the right time to start looking at our succession planning options. BDC has helped us finance our expansion projects, and BDC Consulting has provided us excellent advice on choosing effective exit strategies. I'm confident that the future of our business is secure."

INFLATION AND HIGH ENERGY PRICES

Commodity prices rose significantly in 2005; crude oil prices by more than 40%. Most experts feel that commodity prices, especially in the mining and energy sector, will continue to remain elevated. The costs of doing business, such as the costs associated with producing and transporting goods, are rising. It is increasingly difficult to pass these costs on to consumers. Global competition makes it impossible for entrepreneurs to compete on price alone.

INTEREST RATES

Interest rates have been at historically low levels for several years. In 2005, fears of rising inflation caused an increase in short-term rates, which were stable for most of the year but increased by 0.75% in the fall. Fixed-term rates were almost unchanged. For SME entrepreneurs, the effect was largely neutral. However, should rates rise, they could discourage productivity-enhancing investments and deter consumer spending.

A STRONG CANADIAN DOLLAR

The value of the Canadian dollar has risen significantly over the past three years, from U.S. $0.62 in January 2002 to $0.88 in March 2006, the highest since November 1991. A strong dollar makes Canadian manufactured goods more expensive for foreigners to buy. However, a strong dollar also presents opportunities; the importing of productivity-enhancing machinery and equipment is less costly. Canadian entrepreneurs are also better positioned to buy foreign capital goods and to explore and develop potential in global markets.

TIGHT LABOUR MARKETS

Over the past year, Canada's economy created nearly 226,000 net new jobs. The unemployment rate reached a 31-year low of 6.4% in November. Increasingly, SMEs have difficulty attracting and retaining qualified employees. The demographic proportion of young people in society is declining, the number of people entering the workforce is dropping and large numbers of baby boomers are retiring. Today's technology and global competition require increasingly high levels of training, skills and experience.

BDC's PUBLIC POLICY Role

OUR PUBLIC POLICY ROLE: WHAT IT IS

When they succeed, entrepreneurs make a crucial contribution to Canada's prosperity. It is in our national interest to support them.

In 1995, Parliament identified gaps in the market's provision of services to small and medium-sized enterprises (SMEs). To support entrepreneurs hindered by these gaps, it passed the *Business Development Bank of Canada Act*. The Act created BDC to promote entrepreneurship by providing financing, consulting and venture capital services to SMEs.

BDC has one client: Canadian entrepreneurs. It now serves 26,000 of them at more than 85 branches and offices across the country.

In its financing activities, BDC is a complementary lender in the marketplace. It operates where there are market deficiencies to complete the services made available by commercial lenders. BDC works with other financial institutions and partners to serve entrepreneurs.

The Crown corporation BDC has existed, under different names and with evolving public policy mandates, since 1944. To learn more, please visit www.bdc.ca.

OUR PUBLIC POLICY ROLE: HOW WE FULFILL IT

BDC fulfills its mandate by providing services to entrepreneurs. These services are commercially viable, efficient and environmentally responsible.

- BDC does not receive an annual appropriation from Parliament; it must make a profit to grow while fulfilling its mandate. We offer quality services at competitive rates, create value-added relationships with clients and consistently measure their level of satisfaction with our services. This year, their satisfaction level was 92%.
- To succeed, BDC needs talented, motivated and hard-working employees. To engage, retain and attract them, we work to create a culture of engagement, learning and growth. This year we measured our employee engagement level to be 78%, a level we continually work to raise.
- BDC is efficient. We measure our efficiency by expressing the operational and administrative expenses of our financing operations as a percentage of their net interest and other income. This fiscal year, the ratio was 48.9%.
- BDC is environmentally responsible. Since 1991, we have used an Environment Risk Policy to guide our decisions. Starting in June 2006, we will also comply with the *Canadian Environmental Assessment Act* (CEAA). We will use CEAA's planning and decision-making process to assess the environmental effects of any project we consider financing that falls under the law. Our goal remains to ensure that we do not fund projects that might cause significant adverse impact on the environment. We anticipate that about one third of our financing decisions will involve projects requiring environmental assessments under CEAA.

Client confidentiality: Client confidentiality is a fundamental principle of the financial services sector, and is one that BDC honours.

BDC: STRUCTURED TO PROVIDE WHAT ENTREPRENEURS NEED

BDC Financing

Innovating, fast-growth firms and start-ups are more likely to experience a refusal in their search for financing since the entrepreneur often has neither a proven track record nor sufficient tangible assets to pledge as security.

BDC does not base its credit decisions on pre-determined credit formulas or the personal wealth of the applicant. We examine the combined merits of the entrepreneur, his or her management capabilities (and those of his or her team) and the viability of the project. We emphasize small loans, tolerate a greater degree of risk than commercial lenders generally accept and offer a range of services to accompany entrepreneurs through each stage of their company's growth. We also remain active during industry downturns.

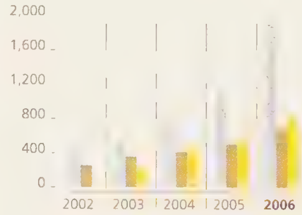
Our role as an SME development bank is clear in our relationships with our clients. Over half (54%) are characterized by authorizations with a total commitment of $250,000 or less.

We support the creation of SMEs. Co-Vision Loans provide loans of up to $150,000 for specific start-up needs. They are available to entrepreneurs in all sectors, with particular emphasis on the manufacturing, distribution, construction, services and tourism sectors. Entrepreneurs use Co-Vision Loans to buy fixed assets, to cover soft and franchise costs and to create home-based businesses.

We support innovating SMEs. To survive and prosper, businesses must innovate. SMEs can grow by innovating but often lack the financing they need to improve or expand their operations. Innovation Financing of up to $250,000 is available to entrepreneurs in all sectors to ensure they maintain industry standards. This is often done by investing in intangible assets such as training and development for management and employees. Entrepreneurs also use the financing to invest in research and development, buy new technology, prepare and implement marketing plans, develop export markets and start e-commerce projects. They also use it to cover working capital costs such as leasehold improvements and specialized assets.

We support greater SME productivity. BDC offers entrepreneurs Productivity Plus Loans to maintain or increase the productivity of their business. These loans of up to $5 million help finance the purchase of productivity-enhancing equipment, machinery and software. Productivity Plus Loans principally support businesses in the manufacturing and processing sectors but are also available to other businesses that have equipment needs. We lend up to 125% of the value of the assets purchased to cover installation and training.

Authorizations – Number
for the years ended March 31



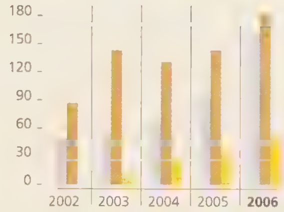
	2002	2003	2004	2005	2006
Innovation Financing	436	549	745	1,079	1,880
Productivity Plus Loans	247	350	403	493	687
Co-Vision Loans	–	202	436	562	802

ModulR TS INC. | Cocagne, New Brunswick

Arthur Allain
President and CEO

"Productivity is crucial in our plant, where we design and manufacture environmentally friendly and fire-retardant roofing insulation systems. To help improve our operational efficiency, we went to BDC for financing. That support has enabled us to take advantage of new market opportunities and we envision doubling our sales volume in the next two years. Now that we have achieved a comfort level with BDC, we have the reassurance that it will be there for us in the years to come."

Authorizations – Amount
for the years ended March 31
$ in millions



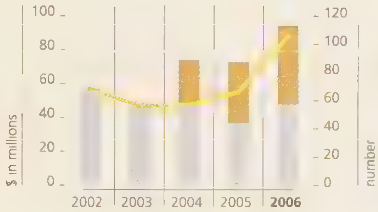
	2002	2003	2004	2005	2006
Innovation Financing	48	55	63	91	**160**
Productivity Plus Loans	85	141	129	141	**181**
Co-Vision Loans	–	11	24	32	**47**

BDC Subordinate Financing

For businesses that have fast-growth working capital requirements and that may not have the tangible security required by conventional lenders, or for those whose owners are reluctant to dilute ownership in the firm, subordinate financing is a solution. Subordinate financing – loans of $250,000 to $6 million – is a hybrid financial instrument that incorporates elements of debt financing and equity financing.

BDC is a national leader in subordinate financing, a position anchored by our partnership with *Caisse de dépôt et placement du Québec*. This year, BDC Subordinate Financing authorized $93 million (this includes the CDPQ portion).

Subordinate Financing Authorized
for the years ended March 31



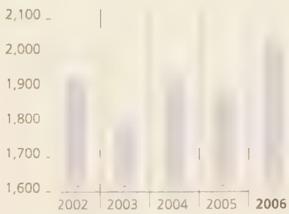
	2002	2003	2004	2005	2006
Amount – BDC portion	56	49	48	36	**47**
Amount – CDPQ portion	–	–	25	36	**46**
Number authorized	67	55	56	66	**104**

We offer support for more skillful businesses

BDC Consulting

Canadian businesses often need to improve their skills in quality assurance, financial, strategic and business planning, operations management, human resources and marketing. BDC Consulting offers affordable, high quality consulting services in all of these skills. These services, which often harness outside resources, are an integral part of the value we bring to each client relationship. In fiscal 2006, based on 2,037 consulting mandates, our client satisfaction rate was 83%.

BDC Consulting Mandates
for the years ended March 31
Number



	2002	2003	2004	2005	2006
Mandate	1,918	1,774	1,909	1,886	**2,037**

Agrocentre FERTIBEC INC. | Saint-Rémi, Quebec

Jean-Luc Yelle, *President*
Richard Adam, *Vice President, Operations*

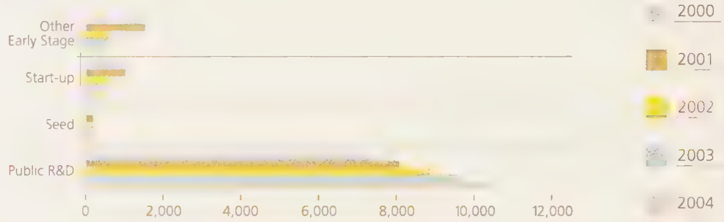
"We were looking for a fresh perspective on how to improve the way we do business in the agricultural sector. And BDC Consulting gave us an objective point of view, which is invaluable to any entrepreneur. Through strategic planning, lean manufacturing and a complete revamp of our sales system, we were able to improve our bottom line. Today, we're seeing significant growth in our company, which will help us maintain our status as a leading supplier of fertilizer, pesticide, seed and related services in Quebec."

We offer support to turn innovation into successful companies

BDC Venture Capital

BDC supports young, knowledge-based companies that turn ideas and new technology into attractive products. We are a Canadian leader in the critically important early stage (including seed) investment phase: 83% of our investments are in early stage, compared with the industry average of 44%.

Canadian Public Funding of R&D and VC Investment by Stage – calendar year



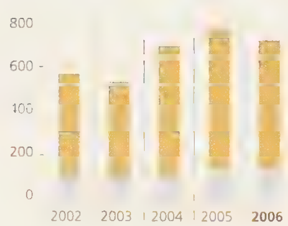
Source: Thomson Macdonald and Statistics Canada

This past year, total seed investments in Canada were $37 million. BDC authorized $23 million of this total in 24 seed ventures

Number of BDC Venture Capital Direct Investments Authorized Classification by Stage of Development
for the year ended March 31, 2006

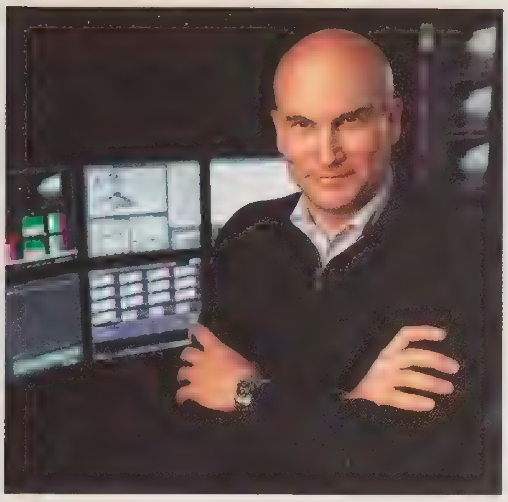
1	Start-up / Seed	45%
2	Development	32%
3	Expansion	17%
4	Turnaround	6%

Total Value of BDC Venture Capital Projects Financed
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
BDC Venture Capital authorized	106	93	109	143	140
Other sources of investment (estimated)	472	446	598	652	598
Total	578	539	707	795	738

About 40% of our venture capital portfolio companies originated and developed in universities and labs. These companies need BDC's expertise and long-term commitment.



Miranda TECHNOLOGIES INC. | Montréal, Quebec

Strath Goodship
President and CEO

"We value our long-term relationship with BDC, an investor that has remained loyal to us through good and challenging times. With our first round of financing in 1997, the Venture Capital team was instrumental in helping us turn our product into a commercial success. Our high performance hardware and software for the television broadcast industry continue to make headlines, and our IPO was one of the largest in Canada's technology sector in the past five years."

BDC: REACHING AND RESPONDING TO ENTREPRENEURS IN *ALL* PARTS OF SOCIETY

At 19 Entrepreneurship Centres across Canada, we offer specialized lending, consulting and resources dedicated to meeting the needs of younger, smaller businesses. In fiscal 2006, the Centres authorized $200 million in loans.

We partner with Community Futures Development Corporations, a network of 273 contact points located mostly in rural areas. This gives us access to entrepreneurs who live near these centres. We have partnership agreements with 70% of the Community Futures Development Corporations across Canada.

For BDC, diversity means ensuring that our workforce reflects society and that our outreach to clients is as broad and inclusive as possible. This enables us to target services to meet SME needs that vary from community to community, as well as to stimulate would-be entrepreneurs who have come to Canada from all parts of the world. Generally, immigrants are entrepreneurially very active and more likely to employ and export. Our reach into ethnically diverse communities is proactive. We use a grassroots approach, collaborating with business associations such as the Association of Chinese Canadian Entrepreneurs.

Women entrepreneurs lead businesses of all sizes in all sectors and enter the SME marketplace at twice the rate of men. Over the past two decades, their number has grown by over 200%. The most important indicator of BDC's support for women entrepreneurs is the fact that they represent about one-quarter of BDC's clients. This portfolio is $1.7 billion in committed and outstanding financing. We have over 6,000 women clients, twice as many as a decade ago

Women entrepreneurs need to be as successful at business growth as they are at business creation. Accordingly, we help them meet the challenges of growth. To gain information and insights about how to do so, we collaborate with women's organizations such as the Women's Entrepreneurial Centre of Quebec, the Canadian Women Entrepreneur of the Year Awards, the Women Presidents' Organization and others. We also support networking, which is key to learning from peers and about new market opportunities.

About 9% of Canadian SMEs are led by young entrepreneurs, many of whom find it difficult to secure financing because they are in a start-up position, have little or no managerial experience and have no proven track record. Our portfolio consists of 2,900 young entrepreneurs with over $500 million in committed and outstanding loans

BDC's Co-Vision Loans meet the needs of young entrepreneurs. Almost a third of our clients who have Co-Vision Loans are under 35 years old. BDC's Entrepreneurship Centres collaborate with external partners devoted to young entrepreneurs, such as the Canadian Youth Business Foundation. Also, a complete section of our website (www.bdc.ca) is dedicated to helping entrepreneurs write a business plan

To foster an entrepreneurial spirit in Canadian youth, BDC celebrates the creativity and business success of young entrepreneurs with awards such as the Young Entrepreneur Awards (a key event during BDC Small Business Week®) We also support competitions in universities and colleges that promote entrepreneurial and business-planning skills

Many Aboriginal businesses will be start-ups or look like start-ups in that their debt-to-equity will be higher than is generally acceptable to commercial financial institutions. Also, many lack tangible security to offer as collateral BDC supports them by providing working capital

We also help create economic development in Aboriginal communities through a grassroots level approach called the "Circle of Entrepreneurial Success". This strategy delivers loans of $5,000 to $20,000, with terms that vary depending on the cash flow expectations of the project, management training and ongoing mentorship.

To stimulate awareness of entrepreneurship among Aboriginal youth, we offer E-Spirit, an Internet-based Aboriginal Youth Business Plan Competition. To date, more than 2,000 students in more than 180 schools have participated in the competition, and some competitors have since graduated and are running businesses based on those plans. E-Spirit 2005 was held in Edmonton, Alberta.

We use partnerships and joint ventures to extend our reach and increase our efficiency. A Community Futures Development Centre that is owned and operated by Aboriginal entrepreneurs is a good example of a strategic partnership.

PUBLIC POLICY ISSUES

Business ownership transition

A majority of Canada's baby boomer entrepreneurs are approaching retirement without properly planning the transfer of the ownership of their company. For these people, the value of their business is often their main retirement asset. For employees and local economies, the company's survival is key to their economic well-being.

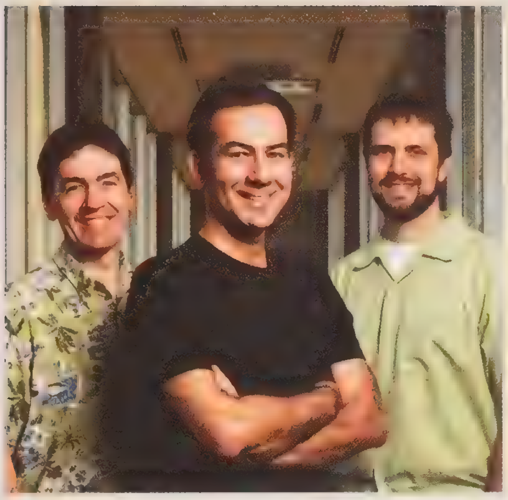
Through financing and consulting, BDC helps entrepreneurs manage the transition. This service has grown more than twofold since 2001. It is the fastest growing segment of our lending activity.

We monitor and analyze the issue as part of prudent risk management. We also work to make entrepreneurs and the financial and business communities aware of the importance of the issue.

The scale of the potential economic disruption makes this a policy issue of national significance. SMEs employ about 60% of the working population and are essential to job creation and economic growth.

Ultimately, successful transitions safeguard the continued existence of small businesses that can then grow into medium-sized ones.

For future prosperity, Canada will need a greater number of successful *medium*-sized businesses.



Kleer SEMICONDUCTOR | Kanata, Ontario

Ralph Mason, *co-founder and CTO*, **Levent Gun**, *President and CEO and* **Chris DeVries**, *co-founder.*

"BDC was the seed investor in our company, which has developed an ultra-low power radio technology optimized for streaming high-fidelity audio without wires. Right from the get-go, we earned the confidence of the Venture Capital team because our product solved a unique problem in an exploding audio market – how to deliver unprecedented sound quality without compromising battery life. Clearly, BDC saw our full potential and today, we have solid backing from top-tier venture capital firms in Canada and the U.S."

Turning ideas into competitive companies

A key part of Canada's future prosperity will be generated by companies that turn ideas into products and services that they sell around the world.

The commercialization of research is a complex, risky process. To transform a discovery into a globally successful company, entrepreneurs must meet a series of challenges, each of which requires financing: determine a commercial application, do market research, build a prototype, produce, distribute and sell. In short, successfully create and manage a company.

Success takes several years, millions of dollars and a sequenced range of separate, sophisticated skills.

BDC is one of the most active venture capital investors in Canada. It plays a critical role in creating and supporting early stage technology companies. It also supports its portfolio companies as they mature their innovations to become more attractive to other investors. Finally, it provides indirect support via specialized venture capital funds. This support leverages investments from the private sector: over $4 for every dollar BDC invests.

We believe there is no silver bullet prescription to make Canada a more successful incubator of innovative, globally successful companies. The long-term solution will require several changes, starting with a culture of "serial" entrepreneurs, people who have previously been successful at creating a profitable company around an innovation and who are ready to do so again. It will also require a greater number of knowledgeable venture capital fund managers to provide the expertise and experience needed to nurture the growth of innovations. Additionally, Canada needs a more efficient process that targets, finances and nurtures innovations destined to be world-class market technologies.

Pro-Line AUTOMATION SYSTEMS LTD. | Woodbridge, Ontario

Vinode Ramnauth
Vice-President

"When you design automated manufacturing systems for the fenestration industry, efficiency is always at the top of the agenda. BDC continues to play a pivotal role in our productivity and growth by financing new space. Our expansion has helped us build our exporting effort, which now makes up over 65% of our business. BDC Consulting has also helped us take advantage of the Scientific Research and Experimental Development Tax Credit (SR&ED) by guiding us through what can be a complex process. We truly appreciate the invaluable support."

OUR LONG-TERM PUBLIC POLICY ROLE: ASSESSING OUR PERFORMANCE

BDC has developed performance indicators to assess the long-term fulfillment of its public policy mandate. We will use these indicators to track and communicate our unique public policy accomplishments, as well as to align future strategies with government policies.

Market Leverage

Each dollar lent or invested by BDC leverages private sector sources of financing. Monitoring that activity provides the total value of SME projects backed by BDC.

- At present, our operational data indicates that BDC Venture Capital leverages over $4 from other venture capitalists for every dollar BDC invests.

Business Creation

This represents BDC's contribution to the creation of Canadian businesses, as compared to the market industry benchmarks.

- Over the past five years, about 13% of BDC authorizations went to clients in the start-up phase. Market data shows that approximately 5% of Canadian businesses are start-ups. This suggests that BDC is supporting more than twice as many start-ups as the market is.

Business Survival

BDC works in partnership with entrepreneurs, even in difficult times. The survival rates of BDC start-up clients, compared to industry benchmarks, is better.

- Two-Year Survival Threshold: After the second year of receiving BDC support, only 9% of BDC loans authorized to start-ups were written off and liquidated, compared to the 25% research finding determined by Statistics Canada
- Five-Year Survival Threshold: After five years, 67% of BDC start-ups survive, compared to the Statistics Canada industry benchmark of 36%

Business Growth

One can track the growth of BDC clients, as compared to the SME market at large.

- Based on a comparison of internal and external surveys, BDC appears to have twice as many clients who perceive themselves to be in the fast-growth stage than is the case generally for the SME market (28% vs 13%).

Performance AND ANNUAL Objectives

BDC PERFORMANCE AND OBJECTIVES FROM FISCAL 2005 THROUGH 2007

The following table summarizes BDC's performance and objectives from 2005 through 2007. Each measurement is discussed in further detail under its appropriate heading.

Performance Measurement	F2005 Actual	F2006 Objectives	F2006 Actual	F2007 Objectives
Clients				
Client satisfaction	93%	89%	92%	89%
Employees				
Employee engagement	74%	78%	78%	78%
Efficiency				
Efficiency ratio	48.5%	47.4%	48.9%	49.7%
Financial sustainability				
Outstanding financing Portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B
Total ROE at least equal to the government's average long-term cost of funds	9.7%	7.7%	9.2%	8.2%
BDC Consulting revenues	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M
BDC Venture Capital 10-year IRR – Total Investments	5.6%	6.3%	1.5%	(0.1%)

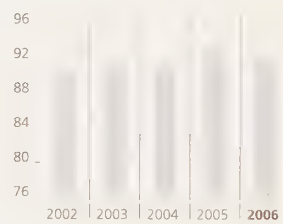
CLIENTS

Corporate objective: *Create a unique and valued relationship with Canadian entrepreneurs by supporting the creation and accompanying the growth of their businesses.*

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Client satisfaction	93%	89%	92%	89%

BDC uses third party surveys to determine if it is meeting its client satisfaction objective of 89%. In fiscal 2006, 92% of our clients were either satisfied or very satisfied. This is a slight drop from the 93% in fiscal 2005, but well ahead of the 89% objective.

Client Satisfaction Level
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
Client Satisfaction Level	90	91	91	93	92

BDC is in business to help Canadian SMEs grow and prosper. To do so, it must understand their needs. It must then adopt strategies and products to meet these needs.

BDC employees are its clients' primary and usual contact. To ensure that entrepreneurs recognize BDC employees as both SME financing experts and valuable business partners, BDC invests continuously in their development. In 2006, BDC created a regional training centre pilot project. This centre, located in Ontario, offers development and learning opportunities for front-line employees. Its success has convinced us to organize a complete network of training centres across the country and decentralize part of the existing offering.

In fiscal 2006, BDC also increased the number of employees who have a direct relationship with customers. A greater number of well-trained front-line staff enhances our ability to meet client needs in the future.

In fiscal 2006, BDC implemented the Guided Portfolio Simplification (GPS) tool and early warning system, which directs BDC staff to clients who have potential cash flow problems, in order to help them get through a difficult situation. This also helps BDC employees recognize businesses that do not need such a thorough approach, which saves time and lightens the administrative load.

MANREX LTD. | Winnipeg, Manitoba

Fiona Webster Mourant
President

"We design, manufacture and market medication delivery systems, so it was important for us to have the technology in place to accommodate new product development and new proprietary products. Over the years, BDC has also shared that same proactive thinking, helping us finance software and manufacturing equipment that would enable us to grow. Today, exporting makes up nearly 30% of our business, and we foresee a bright future."

COMMITMENT TO BDC FINANCING CLIENTS BY PROVINCE OR TERRITORY

As at March 31	2006		2005	
	Number of clients	Amount ($ in millions)	Number of clients	Amount ($ in millions)
Newfoundland and Labrador	1,468	$ 387	1,300	$ 358
Prince Edward Island	133	51	134	50
Nova Scotia	807	237	714	202
New Brunswick	1,109	364	998	330
Quebec	9,029	3,749	8,503	3,558
Ontario	7,672	3,099	7,497	2,940
Manitoba	652	199	571	160
Saskatchewan	477	128	437	107
Alberta	1,765	635	1,636	548
Northwest Territories and Nunavut	58	31	65	33
British Columbia	2,540	768	2,427	703
Yukon	92	28	87	25
Total	25,802	$ 9,676	24,369	$ 9,014

BDC is present across the country, from St. John's to Victoria and from Windsor to Yellowknife. It also has a decentralized decision-making process. Over 95% of all financings were authorized at the regional level.

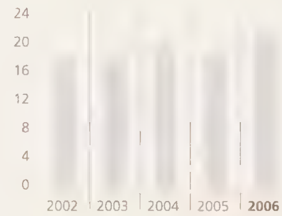
A DIFFERENT VALUE PROPOSITION

BDC Consulting has placed consultants-in-residence in BDC Entrepreneurship Centres. These experienced employees bring business advice to start-ups and micro-businesses, helping them past the embryonic business stage. In fiscal 2006, consultants-in-residence provided services through 267 market impact mandates with an average contract size of $3,700. Moreover, BDC Consulting realigned its delivery processes using a Kaizen approach to improve both efficiency and service offerings. Operational eficiency will provide employees time to deliver more mandates.

The next step entails helping Canadian businesses meet the challenges of lower productivity and business ownership transition.

BDC is attacking the lower productivity issue through its Competitiveness Strategy consulting offering which offers a review of business processes, productivity diagnoses and tools such as lean manufacturing. In fiscal 2006, BDC served 224 clients with operations management consulting.

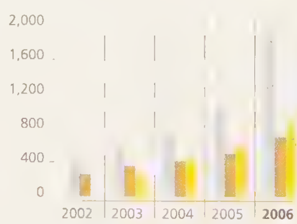
BDC Consulting Revenue
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
Consulting Revenue	18.2	18.2	20.0	18.9	21.6

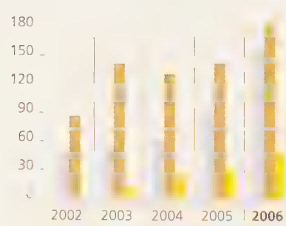
BDC Financing has increased its emphasis on specialized loans to help clients with smaller needs become more efficient. To help companies increase their profitability, BDC offers: Co-Vision Loans, aimed at start-up enterprises; Innovation financing, to cover working capital growth needs; and Productivity Plus Loans, to finance new machinery and the soft costs associated with its acquisition.

Authorizations – Number
for the years ended March 31



	2002	2003	2004	2005	2006
Innovation Financing	436	549	745	1,079	1,880
Productivity Plus Loans	247	350	403	493	687
Co-Vision Loans	–	202	436	562	802

Authorizations – Amount
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
Innovation Financing	48	55	63	91	160
Productivity Plus Loans	85	141	129	141	181
Co-Vision Loans	–	11	24	32	47

Superior CABINET | Saskatoon, Saskatchewan

Linda Larre
President

"The fact is, the more you build, the more you can sell. And BDC has ensured that we will meet our full potential in a strong market for kitchen and bathroom cabinets. Thanks to BDC's financing, we were able to expand and retool our plant, renovate our administrative building and construct an impressive showroom and warehouse facility in Calgary. BDC Consulting also assessed our plant production capacities, so that we could make real operational improvements. That added value makes BDC an excellent partner."

BDC Venture Capital addresses market gaps which hinder the creation and development of innovative technology businesses. Its structure is:

- Technology Seed Investment Group
- Four internal specialized groups designed to fill the early-stage gap:
  - Life Sciences
  - Information Technology
  - Telecommunications
  - Advanced Technologies
- A fund-investing group to support private venture capital fund managers and increase institutional investing.

BDC Business Ownership Transition Strategy

A 2005 report by the Canadian Federation of Independent Business found that 71% of small business owners across Canada plan to retire in the next ten years, and that most do not have a succession plan. As over 16% of BDC's SME clients are owned by individuals aged 55 and older, we work to raise awareness of the importance of succession planning. Business ownership transition is the fastest growing segment of BDC's lending activity.

ANALYZE MARKET DEVELOPMENTS

BUILD AWARENESS
- **Employees**
- **Clients**
- **SMEs**

OWNERSHIP TRANSFER
- **BDC Consulting**
  - Ownership transfer planning
  - Group forums
  - SME Succession Program
  - Value assessment
  - Sales
- **BDC Financing**
  - Term loans
  - Innovation Loans
  - Subordinate Financing

TRANSITION
- **BDC Consulting**
  Personalized services
  - Management & leadership transfer
  - Transfer of knowledge

As seen in the diagram above, BDC's approach is to analyze market developments, build employee awareness, build marketplace awareness among clients and Canadian SMEs, and seek business through BDC Consulting services and BDC Financing.

Superior TOFU LTD. | Vancouver, British Columbia

Rita Cheng
President

"We're proud to offer high-quality tofu and soy foods that are based on the traditional Asian staple food but updated for a North American diet. Since our beginnings, we've seen the real results of our creative business approach. BDC has shown its creativity too by helping us find solutions to meet our development needs. We've doubled the space in our plant and financed state-of-the-art equipment with the help of a term loan from BDC."

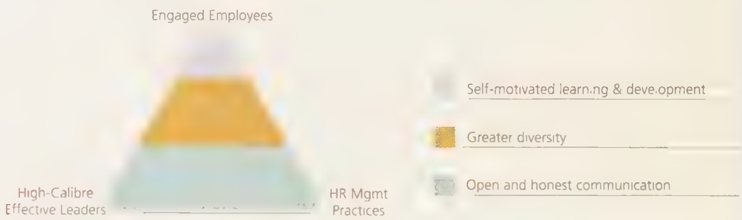
EMPLOYEES

Corporate Objective: *foster a culture of engagement, learning and growth.*

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Employee engagement	74%	78%	78%	78%

BDC relies on knowledgeable, engaged employees to fulfill its mandate of high quality service to Canadian entrepreneurs. The cornerstone of its Human Resources strategic plan is the fostering of a culture of engagement, learning and growth.

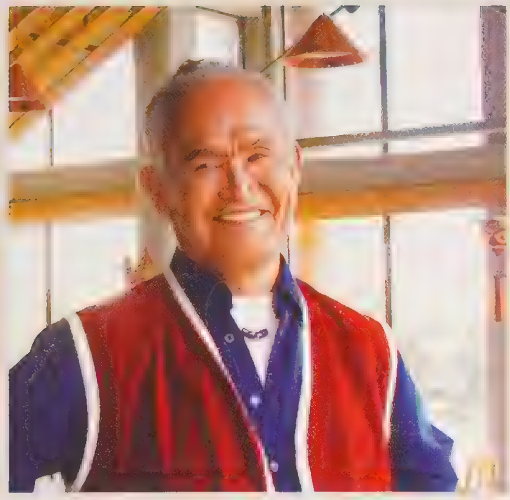
HR Vision



The direct correlation between employee engagement, client satisfaction and business performance is no coincidence. The more engaged the employee, the more likely he/she is to provide the highest level of service to clients. BDC measures employee engagement with an internal survey. In 2006, with a response rate of 91%, the employee engagement score rose by four points to 78%. Client satisfaction reached 92%, 3% higher than the corporate objective of 89%.

Employee Engagement Level
for the years ended March 31
percentage

	2002	2003	2004	2005	2006
Employee Engagement Level	75	76	77	74	**78**



Tin Wis RESORT LTD. | Tofino, British Columbia

Howard Tom
Chairman of the Board

"Tin Wis Resort Ltd. is owned and operated by the Tla-o-qui-aht First Nations. We offer luxury accommodations situated in the heart of Vancouver Island's ancient rainforests. When we were ready to grow and attract more business, BDC came through with the right financing to address our seasonal needs. The team there has continually shown its in-depth understanding of challenges in the tourism trade, ensuring that our loan terms and conditions are simplified. The level of customer service is unparalleled."

To engage, retain and attract talented people in a highly competitive labour market, BDC focuses on:

- **Talent Management:** Reinforcing BDC's commitment to developing the talent required to meet today's and tomorrow's needs, we have crafted a talent management strategy that focuses on building capacities that are critical to achieving corporate objectives. Through an extensive career management process, we encourage learning and development at all levels in the organization. Complete training initiatives enable us to develop the important financial or technical skills needed to meet our clients' needs. We also have a Transitional Leadership Program to help develop, coach and support employees on their journey to becoming leaders.
- **Total Rewards:** Since its introduction in 2004, the Total Rewards Strategy has gradually shifted BDC's compensation and benefit practices into better alignment with those of the financial services market. As a result, BDC is now positioned to compete in a highly competitive labour market. The performance-based programs reward individual performance and contributions, based on results. Combined with greater flexibility and choice regarding benefits and pension plans, this model will serve BDC as it moves forward in a market where talented employees are in increasingly high demand.
- **Alignment of People Practices:** BDC endeavours to create a work environment that inspires and motivates employees to strive to achieve. Our organization has shifted from a culture of centralization and control toward a culture of greater autonomy and accountability. Accordingly, BDC works to ensure that its people practices are designed to support this fundamental change.

We will continue to foster a culture that recognizes the importance and value of employees and their contribution, thereby creating an environment that allows employees to bring the best of BDC to their clients.

SOUND FINANCIAL MANAGEMENT

Corporate Objective: *To fulfill its public policy mandate, BDC has to be profitable to fund the growth of its portfolio, generate a return on common equity at least equal to the government's average long-term cost of funds and be able to withstand unfavourable economic circumstances without requiring government funding.*

Performance Measurement	F2005 Actual	F2006 Objectives	F2006 Actual	F2007 Objectives
Efficiency ratio	48.5 %	47.4 %	48.9 %	49.7 %
Outstanding financing portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B
BDC Consulting revenues	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M
Total ROE at least equal to the government's average long-term cost of funds	9.7 %	7.7 %	9.2 %	8.2 %
BDC Venture Capital 10-year IRR – Total Investments	5.6 %	6.3 %	1.5 %	(0.1) %

BDC is a financially self-sustaining, commercial Crown corporation. It has a mandate to operate profitably, and pursuant to the *BDC Act*, makes loans and investments only where there is a reasonable expectation of profit.

BDC does not make grants or contributions, nor does it receive an annual appropriation from Parliament. Its objective is to earn a return on common equity at least equal to the government's average long-term cost of funds, currently 4%, versus the objective of 8.2% for fiscal 2007. BDC pays an annual dividend to the Government of Canada.

BDC measures and tracks its financial performance using the five measures described above. At $8.8 billion, the financing portfolio is the driving force. It has achieved critical mass and generates a reliable income stream, net of credit losses, that recoups its operating expenses. The net income after operating expenses amounts to 1.8% of the average outstanding portfolio. This means that sound financial management and a strong internal control environment is critically important for the long-term success of BDC. The retained earnings, after dividend payments, are reinvested to fund future growth in the loan portfolio.

The efficiency ratio remains steady in the 48% – 49% range. This is despite the rising number and complexity of sophisticated transactions, as well as a rising volume of smaller loans. Both require staff increases and greater investment in employee training, which offset revenue gains.

BDC Consulting revenues of $21.6 million exceeded the objective. In fiscal 2006, BDC started a program to recruit and train additional employees to expand its services to Canadian entrepreneurs.

Measuring the performance of BDC Venture Capital investments is challenging because of the long-term and high-risk nature of such transactions. The internal rate of return (IRR) is an industry standard which BDC uses for comparative purposes, although the nature of BDC's early-stage and patient capital role means that the IRR may reflect fluctuations that can be significant. During fiscal 2006, BDC changed its accounting policy and adopted the *fair value* method for assessing such investments.

Financial sustainability is achieved by a detailed assessment of the risk of individual loan transactions, a pricing policy which reflects that risk and an internal control environment which exercises sound management and effective controls over operating expenses. The Canadian Securities Administrators have regulations to reinforce investor confidence in financial markets. Following the adoption of regulations regarding the certification of financial information, BDC began a formal review of its financial reporting and disclosure processes. In fiscal 2006, BDC initiated a multi-year project to review its control processes, including the certification of internal controls over financial reporting and disclosure controls by the CEO and the CFO.

CORPORATE GOVERNANCE

PARLIAMENT

BDC's activities are guided principally by two parliamentary statutes. The *Business Development Bank of Canada Act* sets out BDC's purpose, powers and duties. The *Financial Administration Act*, Part X, sets out the control and accountability regime for Crown corporations.

As with all other Crown corporations, BDC is subject to other federal laws, such as the *Official Languages Act*, as well as regulations. BDC has always been subject to the *Access to Information Act*.

Crown corporations are the most audited organizations in the public sector. The Auditor General, jointly with an external audit firm, audits BDC every year.

Also, at five-year intervals, the Auditor General does a Special Examination of BDC. This examination, also done jointly with a private sector audit firm, is a performance audit. It goes beyond issues that are strictly financial to examine systems and practices related to economy, efficiency and effectiveness. BDC's next Special Examination will be in 2009.

Every year, Parliament receives summaries of corporate plans, annual reports and a consolidated report on Crown corporations.

TREASURY BOARD SECRETARIAT

In 2005, the President of the Treasury Board released the *Review of the Governance Framework for Canada's Crown Corporations – Meeting the Expectations of Canadians*. The review is part of an effort to reassert the role of Crown corporations as instruments of public policy and to improve the effectiveness of their governance frameworks. It lists 31 measures to:

- clarify the relationship between Ministers and Crown corporations
- clarify the accountability regimes of Crown corporations
- make more transparent the appointment process for chairs, CEOs and directors
- align the governance of Crown corporations with reforms in the private sector
- strengthen the audit regimes of Crown corporations
- make more transparent the activities and operations of Crown corporations.

BDC works to stay at the forefront of emerging governance practices. Of the 31, we meet or exceed 27 and are implementing the following three.

- **Board Mandate:** The Board has approved a revised mandate that codifies its roles and responsibilities in line with best practices.
- **Internal Control Certification:** The Board has approved a program to determine the scope of the project.
- **Stakeholders:** BDC is considering venues and formats for appropriate, meaningful input from stakeholders.

A fourth outstanding measure, related to directors' compensation, requires a regulatory change by government.

BOARD OF DIRECTORS

The Board of Directors is accountable to Parliament through the Minister of Industry. Its responsibility is stewardship; it ensures that BDC's activities are aligned with its statutory role and that it fulfills its public policy mandate in an ethical, efficient and effective way.

For Board members, a central challenge is managing the constant tension between BDC's mandated duty to support SMEs – an inherently high-risk endeavour – with its obligation to be commercially viable.

All members of the Board of Directors, except the President and CEO, are independent of management. None is a public servant. Many of them have first-hand knowledge of business and entrepreneurship.

The Board's key tasks are to:

- ensure the highest standards of corporate governance policy and practice
- participate in BDC's annual strategic planning
- approve the strategic direction of BDC's corporate plan
- ensure BDC has identified its principal risks and adopted the right systems to manage these risks
- review and approve management's succession plan (including appointing, training and monitoring senior management)
- examine the effectiveness of BDC's internal control processes and management information systems to ensure the integrity of these systems
- oversee communications and public disclosure; and set BDC's human resources policies and practices.

The Board has a Code of Conduct which incorporates the same basic principles as the Employee Code of Conduct, Ethics and Values. Every year, Board members affirm that they will honour the Code. The segregated roles and responsibilities for the Chairman and the President, already documented, are the subject of ongoing review to ensure they reflect current best practices. Possible conflicts of interest, if any, are disclosed by the Declaration of Conflict of Interest, which the Board accepted and implemented this year.

Much of the work that comes before the Board is initially examined by one of its committees. The BDC has five, all of which have defined mandates. The Board regularly reviews and revises the membership of these Committees to ensure they reflect members' strengths and to create the most productive synergies.

The Audit Committee is independent of management and most of its members have appropriate levels of financial literacy. In fiscal 2006, the nine new members of the Board, following the enhanced policy on orientation and continuous training, received detailed briefings.

OVERVIEW OF BDC BOARD COMMITTEES

Meetings, membership and highlights OF MAJOR ISSUES IN FISCAL 2006

COMMITTEE NAME	NUMBER OF MEETINGS	EXAMPLES OF MAJOR ISSUES	MEMBERSHIP *(as of March 31, 2006)*
Governance and Nominating Committee	6	• Reviewed and recommended the mandate to clarify and confirm the roles and responsibilities of the Board. • Reviewed and recommended the annual agenda for fiscal 2006. • Recommended criteria for the position of President and CEO, chose the executive search firm to identify appropriate candidates and recommended a candidate to the Board for subsequent consideration by the government. • Recommended a policy on personal trading for directors.	**C. E. Ritchie** (chair) S. Bracken-Horrocks C. Desmeules-Bertolin L. J. Duhamel A. Lever K. Ng V. Payn
Audit Committee	7	• Adopted updated Terms of Reference. • Reviewed management's selection of external experts to scope the internal control certification process regime. • Recommended the creation of a new VC subsidiary. • Reviewed a fair value policy for investments.	**T. B. Grieve** (chair) T. Adey C. Bergevin S. Bracken-Horrocks L. Cormier J. Hyshka L. Ledohowski
Human Resources Committee	8	• Reviewed the HR Strategic Plan and Compensation Plan. • Evaluated the Senior Management Team's performance and compensation. • Recommended the benefits package of the President and CEO.	**L. J. Duhamel** (chair) T. Adey C. Chan L. Cormier T. B. Grieve A. Lever K. Ng V. Payn

OVERVIEW OF BDC BOARD COMMITTEES

Meetings, membership and highlights OF MAJOR ISSUES IN FISCAL 2006

COMMITTEE NAME	NUMBER OF MEETINGS	EXAMPLES OF MAJOR ISSUES	MEMBERSHIP *(as of March 31, 2006)*
Pension Fund Committee and Trustees of the Pension Fund	3	• Enhanced the governance structure of the Pension Fund Committee. • Reviewed the investment policy of the Pension Fund and approved a contribution to the supplemental retirement plan.	**L. J. Duhamel** (chair) C. Albert C. Chan C. Desmeules-Bertolin J. R. Halde J. Hyshka M. Karamanos L. Ledohowski Y. Milette C. E. Ritchie
Credit/Investment and Risk Committee	22	• Adopted new Terms of Reference to anchor in the Credit/Investment and Risk Committee responsibility for reviewing risks and risk policies. • Reviewed new delegation of authority to increase management authority while enhancing the strategic role of the Credit/Investment and Risk Committee. • Reviewed and approved 33 financing and venture capital investments. • Reviewed performance and trends in the Portfolios and discussed action plans quarterly.	**C. E. Ritchie** (chair) C. Bergevin S. Bracken-Horrocks L. Cormier T. B. Grieve J. R. Halde L. Ledohowski

When a Member of Parliament, Senator, Board member or senior manager makes a referral to a BDC employee, the BDC Referral Policy requires that this be reported to the Board of Directors. As well, the person who made the referral is immediately informed in writing that client confidentiality supersedes all third-party involvement and that BDC retains sole authority for its credit decisions.

BDC

The Employee Code of Conduct, Ethics and Values affirms the fundamental values of BDC: ethics, client connection, team spirit, accountability and work/life balance. The Code applies to all employees. It sets out the principles that guide and shape our business activities: compliance with the law, honouring trust, fairness, objectivity, integrity and corporate and individual responsibility.

BDC keeps current on best practices and reviews its Code annually to improve its internal governance. The Code includes:

- compliance acknowledgement
- the oath or solemn affirmation of office
- the policy on personal trading for employees
- the policy on internal disclosure concerning wrongdoing in the workplace
- the policy to promote a harassment-free workplace

ENTERPRISE RISK Management

Fulfilling our public policy mandate entails risk. First, risk is an unavoidable feature of business in the financial sector. Second, BDC focuses on entrepreneur needs that are not easily fulfilled in the market; these invariably consist of higher risk projects and investments.

We identify and manage the principal risks to our business so that we can deliver our higher risk mandate while sustaining sufficient capital adequacy for growth. This is a delicate balance of risk and reward. Risk management enables us to strike this balance and is thus a key part of corporate governance at BDC. In fiscal 2006, the Board approved the Enterprise Risk Management policy (ERM). ERM is a framework policy that we incorporate into our strategic and corporate planning; it ensures that our approach to risk management is methodical and consistent across all of our operations and decision-making.

The first steps in risk management are detection and identification. BDC uses continuous, radar sweep-like scans of BDC's credit, market and operational risks.

The first scan starts with the managers responsible for each of BDC's business units. Every year, they identify their top business risks. For each, they write an action plan to mitigate, avoid or accept the risk.

The ERM group at Head Office then compiles, quantifies and assesses the business units' risks to prepare a risk identification report for the Senior Management Team. The report summarizes the risks and identifies the trends and concerns that might have implications for BDC as a whole.

Every year, the Senior Management Team discusses with the Board of Directors the top risks and accompanying action plans. Every three months, the Senior Management Team updates the Board on progress toward implementing the action plans, and reports any emerging risks.

In fiscal 2007, BDC will form an internal ERM Committee. The ERM Committee will do a second kind of risk scan: identify, assess and quantify ongoing risks and opportunities that it finds in BDC's day-to-day operations. ERM Committee members come from a cross section of disciplines. It is a forum for BDC's business units to discuss, share information and collaborate on the implementation of action plans that span functional boundaries.

BDC management uses a state-of-the-art monitoring system that constantly scans both new loans and the portfolio of existing loans. Every week, the system gives in-depth analyses and warnings of trends that might require quick corrective action, accompanied by information to enable managers to determine the cause of the problem: detail by industry sector, geographic location, branch, loan size or type. The advantage of this system is that it puts information into the hands of the unit managers who are responsible for monitoring risk while simultaneously informing senior management of all developments.

We daily monitor the quality of the risk being underwritten. Senior management holds a Quarterly Portfolio Outlook meeting at which it formally reviews trends, concentrations, key risk indicators and loan quality assessments, and realigns marketplace strategies to levels of business risk that BDC considers acceptable. Subsequent to these meetings, it reports and discusses its findings and courses of action with the Credit/Investment and Risk Committee of the Board.

For BDC, there are three broad categories of risk: credit, market and operational.

Credit Risk is the risk that BDC will lose money when a client defaults on a loan. This kind of risk is inherent in new loan authorizations, as well as in our large portfolio of already approved loans. It is also inherent in BDC's Treasury operations. When we expect payment from another party with whom we have entered into a financial transaction, there is a risk that they will not be able to meet their obligations. To manage these risks, we diversify our exposure and set limits on our transactions.

Market Risk is the risk that the value of assets, liabilities or other financial instruments such as interest rate derivatives or currency hedges will change because of changes in market conditions that result in losses for BDC. This risk is inherent in Treasury operations and BDC Venture Capital investments.

Operational Risk is the risk that BDC will lose money or not achieve its financial goals because of day-to-day errors caused by people, processes or systems, or from rare but severe events such as natural disasters.

The benefits of this constant flow of precise information – data for greater responsiveness at the local business unit level and sharpened managerial oversight – permit BDC to confidently take higher risks to support entrepreneurs.

BDC's Audit and Credit Risk management teams, in collaboration with the Portfolio Management Group, are responsible for monthly loan quality reviews. The review examines a sample of loans to ensure that they were approved in a manner characterized by due diligence, adherence to policies and proper risk assessment. We use these results for continuous improvements through communication and training. The Audit team also reviews branch operations for loan portfolio credit risk and compliance with policies and procedures. The team alerts management to any negative trends in operational or procedural risks that they identify, and management ensures that the employees responsible take corrective action.

Venture capital investments are inherently high risk. BDC mitigates these risks through extensive due diligence, using external expertise when needed. We focus on the uniqueness and commercial potential of the product, the experience, expertise and commitment of the management team, the size and dynamics of the market in which the company operates and the competition, both present and potential. We assess the go-to-market strategies, the scalability of the business model and its potential for rapid growth. Once the investment is made, a team of experts provides continuous monitoring and consulting if needed.

BDC's Credit/Investment and Risk Committee's responsibility for authorizing large loans and venture capital investments provides a further kind of risk scan. In doing so, the Committee of the Board evaluates:

- the client's risk rating level, stage of development and management capabilities
- the purpose of the proposed transaction, product or service offering
- the security provided
- the flexibility of the proposed solution
- the markets in which the client operates as well as its fit within BDC's mandate for supporting SMEs.

The overall risks inherent in BDC Treasury operations are monitored on a daily basis at several levels within BDC to ensure compliance with established policies. The Asset and Liability Committee meets quarterly to review Treasury operations and ensure that financial risks are being responsibly managed. Reporting is done quarterly to the Board of Directors.

Information Technology: We uphold best practices in information technology security to ensure the privacy of client information.

Management's DISCUSSION AND ANALYSIS of Financial Results

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This section includes forward-looking statements based on Management's best estimates. By their nature, forward-looking statements involve numerous assumptions and uncertainties. Risks and uncertainties may cause actual results to differ materially from these estimates. Some of the factors that could cause such differences include economic and financial conditions in Canada and around the globe, interest rate fluctuations, quality of the loan portfolio, opportunities for divestitures of investments and uncertainties associated with critical accounting assumptions and estimates.

SUMMARY OF FINANCIAL RESULTS

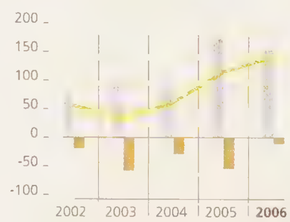
Fiscal 2006 was a record year for BDC. Consolidated net income was a record $138 million compared to $113 million in fiscal 2005. Driven by customer demand, the financing portfolio increased to $8.8 billion and the venture capital portfolio reached $431 million. Client satisfaction continued to be outstanding, achieving a satisfaction rate of 92%, higher than the anticipated 89%.

Income from financing totaled $155 million in 2006, compared to $172 million in 2005. Driven mainly by the portfolio growth, net interest income totaled $433 million, $31 million higher than 2005. The robust Canadian economy and favourable credit conditions produced a provision for credit losses of $88 million in 2006 compared to $54 million in 2005. The increase is due to the recognition of $27 million general provision in 2006 versus nil in 2005.

Revenues from consulting activities increased 14% over last year to reach $21.6 million. The number of mandates performed increased to 2,037, up 8% from fiscal 2005.

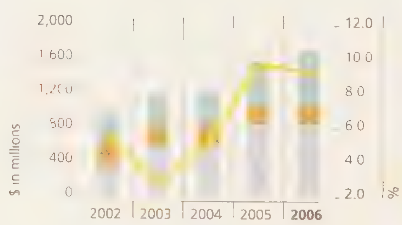
In 2006, BDC Venture Capital operations showed encouraging results and a strong level of commitment to Canadian entrepreneurs, authorizing $140 million of investments, while income before operating and administrative expenses of $0.8 million showed improvement over the loss of $43 million in 2005. Consequently, the net operating loss of $13 million was better than the $56 million last year.

BDC Net Income
for the years ended March 31
$ in millions



	2002	2003	2004	2005	2006
Financing and Consulting	74.7	91.4	89.4	169.6	**151.0**
Venture Capital	(21.0)	(59.5)	(30.3)	(56.1)	**(12.8)**
Total Net Income	53.7	31.9	59.1	113.5	**138.2**

Total Shareholder's Equity
as at March 31



	2002	2003	2004	2005	2006
Common shares*	331.2	586.2	586.2	836.2	**836.2**
Preferred shares	295.0	230.0	230.0	230.0	**230.0**
Retained earnings	334.1	353.8	402.3	503.4	**625.1**
Total shareholder's equity	960.3	1,170.0	1,218.5	1,569.6	**1,691.3**
Return on common equity (%)	5.7	2.7	5.1	9.7	**9.2**

*Includes $27.8 million of contributed surplus

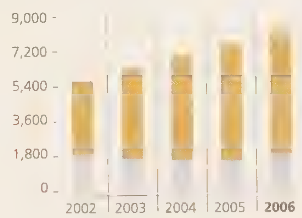
BDC FINANCING OPERATIONAL REVIEW

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Financing Portfolio	$ 8.1 B	$ 8.8 B	$ 8.8 B	$ 9.4 B

Steady demand for BDC's services, especially its specialized products, led to an increase in the financing portfolio in 2006. There were more BDC clients and the portfolio increased from $8.1 billion to $8.8 billion.

Loans are made to clients at either floating or fixed rates, at the client's option. BDC borrows the funds on Canadian and global money markets which determine the cost of funds to BDC. This in turn is the basis of the rate that BDC charges its clients, as is a risk factor determined on an individual loan basis. As the following graph shows, BDC's clients tend to opt for floating rates compared to fixed rates.

Performing Loan Portfolio
as at March 31
$ in millions

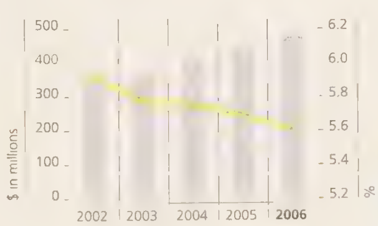


	2002	2003	2004	2005*	2006*
Fixed rate portfolio	1,949	1,658	1,585	1,556	1,940
Floating rate portfolio	3,854	4,783	5,560	6,142	6,437
Total performing portfolio	5,803	6,441	7,145	7,698	8,377

*Excluding subordinate financing investments

Net interest income, after interest expenses of $433 million, and other income of close to $40 million, produced a net margin of 5.61% expressed as a percentage of the average portfolio. This compared to 5.68% in 2005. The reduction of 7 basis points is mainly due to better market conditions. Interest income also includes $26 million of interest earned on short-term investments and securities related to the liquidity maintained to respond to client requirements.

BDC Financing Net Interest and Other Income
for the years ended March 31



	2002	2003	2004	2005	2006
Net interest and other income	341	369	411	441	473
As a % of average financing portfolio	5.92	5.76	5.75	5.68	5.61

BDC Subordinate Financing results are included in financing. In fiscal 2006, BDC adopted prospectively Accounting Guideline AcG-18, Investment Companies, which required valuation of investments at fair value. Consequently, financing results include an unrealized appreciation of investments of $1 million in 2006.

Net interest and other income must be sufficient to cover the provision for credit losses, and the operating and administrative expenses. The income must generate enough profit, net of dividends paid to the shareholder, to grow BDC's capital base through retained earnings. The capital base enables BDC to support increased future lending activities and to maintain the requisite capital-to-asset ratio as prescribed for BDC by the Treasury Board of the Government of Canada.

ALLOWANCE AND PROVISION FOR CREDIT LOSSES

BDC's corporate objective is to create a unique and valued relationship with Canadian entrepreneurs to support the creation and growth of their businesses. To do this, BDC must take risk.

BDC, as outlined in its Corporate Plan, has progressively increased its financing in the start-up, early-stage development and growth businesses through the increased use of its Co-Vision, Productivity Plus and Innovation financing products. A key feature of these products is a reduction in the amount of security required to cover possible loan losses, meaning that the potential for ultimate loss is greater than BDC's more traditional asset-backed loans. In the event of default, losses would be proportionately greater but are to some extent offset because of the smaller dollar value of individual loans.

BDC maintains the cumulative allowance for credit losses in the loan portfolio at a prudent level which reflects its long-term loan loss experience. The total allowance was $502 million at March 31, 2006 versus $483 million as at March 31, 2005, representing 5.8% of the loan portfolio outstanding at year-end (6.0%–2005). The continued strong economic conditions are reflected in the portfolio's strong credit performance, as well as in an overall decrease in the allowance for credit losses as a percentage of the loan portfolio.

Allowance for Credit Losses
as at March 31
percentage

	2002	2003	2004	2005*	2006*
Total allowance as a % of loan portfolio	6.6	6.4	6.5	6.0	5.8
General allowance as a % of performing portfolio	5.2	5.2	5.2	4.8	4.8

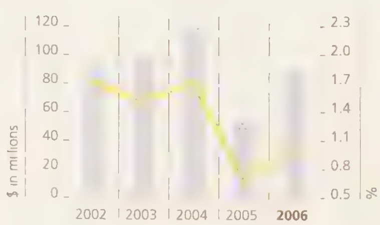
*Excluding subordinate financing investments

The cumulative allowance of $502 million includes a specific allowance of $103 million, which covers the net exposure of identified impaired loans and a general allowance of $399 million. The general allowance covers losses which are present in the portfolio as at March 31 but that cannot yet be specifically assigned to individual loans.

When loans default, they are reclassified as impaired loans, and an amount equivalent to the net exposure is recorded as specific provision, and added to the specific allowance. Loan write-offs reduce the specific allowance once it is determined that all possible recoveries have been made from the distressed debtor. Write-offs and other adjustments totaled $71 million in 2006. This compares with $61 million in 2005.

BDC took a $27 million general provision charge in 2006, versus no charge in 2005. This reflects the increase in the loan portfolio, specifically the increase in specialized loans which bear higher risk than traditional loans. Consequently, the general allowance increased from $372 million to $399 million.

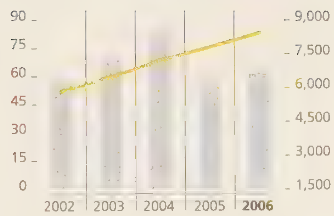
Provision for Credit Losses
for the years ended March 31



	2002	2003	2004	2005*	2006*
Provision for credit losses	95	98	118	54	88
As a % of average loan portfolio	1.7	1.5	1.7	0.7	1.0

*Excluding subordinate financing investments

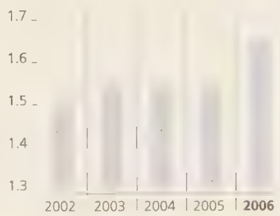
Specific provision for Credit Losses
for the years ended March 31
$ in millions



	2002	2003	2004	2005*	2006*
Specific provision for credit losses	56	68	81	54	61
Average loan portfolio	5,749	6,402	7,136	7,710	8,347

* Excluding subordinate financing investments

Coverage Ratio
as at March 31
This ratio is calculated as the allowance for credit losses / impaired loan portfolio.



	2002	2003	2004	2005*	2006*
Coverage Ratio	1.50	1.54	1.53	1.54	1.65

* Excluding subordinate financing investments

LOANS PORTFOLIO RISK MANAGEMENT

Loan Credit Risk is the risk of financial loss that arises from the possibility of default on a loan. BDC's mandate requires it to lend to a high-risk segment of the Canadian commercial loan sector. As the portfolio comprises a disproportionately large volume of small loans, it is not possible to attribute ratings of independent credit agencies. Thus credit decisions are based on the application of BDC's credit experience with similar customers. Policies and procedures, together with risk assessment tools, support these business decisions. All loans are assessed within a risk-rating framework that is closely linked to a risk-pricing tool. The risk rating provides the basis for understanding the degree of risk in our underwriting, and management of all loans in the portfolio. Reports are routinely provided to Management and the Board. Underwriting decisions are decentralized and subject to independent review and audit. All BDC managers across Canada are trained to assess overall credit risk.

Loans Portfolio Concentration Risk is the risk of several loans or borrowers in the same segment defaulting at the same time. Within the domestic Canadian economy, BDC's loans portfolio is well diversified – geographically, by industry sector and by stage of development.

Environmental Risk is the risk of a financial loss resulting from a loan with an environmental hazard, including those that were unforeseen or improperly managed. BDC has a well-defined process for identifying and evaluating environmental risk at the time of authorization of a loan and a monitoring process to ensure that potential environmental risks continue to be identified and appropriately managed throughout the term of a loan.

LOANS PORTFOLIO MANAGEMENT

A portfolio management information system provides BDC with weekly information on five key risk indicators for new loans and nine portfolio performance indicators. The system allows Management to quickly identify trends. Risk indicators are broken down by industry, geographic sector, business solution, loan size, loan purpose or any combination thereof. Exception reports enable Management to focus attention on corrective action as required. This system is cutting-edge in terms of risk management best practices, which allows BDC to take on risk in line with its mission.

PORTFOLIO STRATEGIES

The Portfolio Outlook Committee analyses data and recommends portfolio strategies. Comprised of representatives from different areas of BDC, including field operations, market development, portfolio risk management and credit risk management, the Committee ensures a balanced and integrated view of both market and risk strategies.

LOAN IMPAIRMENT

A special loans group manages accounts which are impaired or at risk of becoming impaired due to adverse market conditions. Impaired loans amounted to $304 million as at March 31, 2006, compared to $314 million a year ago. The specific allowance for credit losses of $103 million is considered to be sufficient to cover the net loss exposure of these loans.

OPERATING AND ADMINISTRATIVE EXPENSES

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
Efficiency Ratio*	48.5%	47.4%	48.9%	49.7%

* Financing operating and administrative expenses divided by net interest and other income

Financing operating and administrative expenses totaled $231 million, which was $17 million higher than in fiscal 2005. The increase is a direct result of higher staffing levels and the cost of employee benefits. Other costs were held close to the fiscal 2005 level.

Salaries and benefits account for 61% of the BDC Financing group costs, and are largely a function of activity volume. As the portfolio grows, BDC needs more employees to maintain a high standard of customer service.

BDC relies on knowledgeable, trained and engaged employees to fulfill its mandate and meet the needs of Canadian entrepreneurs. Consequently, the fostering of a culture of engagement, learning and growth is an important objective. In fiscal 2006, BDC invested $5 million in training and development programs to build capabilities and enhance employee effectiveness. During the year, staff levels increased from near 1,500 to 1,600.

The BDC pension and benefit plans are designed to form part of a competitive "total rewards program". The pension expense for the defined benefit programs is determined actuarially. It is also significantly influenced by the assumptions which are used to determine the expense, including the discount rate on future liabilities, the expected rate of return on fund assets, inflation rates and other factors. Pension expense increased in 2006 to $5.9 million compared to $4.4 million the previous year. BDC expects this expense to increase again in fiscal 2007, largely due to reductions in the prescribed discount rate on future liabilities.

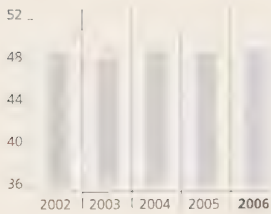
The charge for other benefits, which includes the cost of post employment benefits to pensioners, increased to $8 million versus $7 million, because the cost of providing health care increased, and the impact of the reduced actuarial discount rate drove up the cost of future liabilities.

Premises, lease expenses and operating costs for over 85 offices across the country were $34 million. Most credit decisions are decentralized to better respond to client needs and over 95% of such decisions are made locally. In 2006, BDC invested $7.4 million to provide and maintain an appropriate ergonomic and efficient workplace environment for its employees. It also expanded, relocated or renovated 12 locations across Canada, plus a new branch in Quebec and in Manitoba.

Information Technology (IT) has become critically important to BDC's efforts to function efficiently, to reduce loan approval and disbursement times, and to address privacy, security and confidentiality matters. IT cost $31 million in 2006, $6 million higher than 2005. New projects undertaken included a new risk rating system for credit approval and an information "datamart" (a collection of databases used to make strategic business decisions) while other costs, such as licensing fees, increased in line with staff levels.

Other expenses of $56.8 million comprise staff training, marketing, advertising and miscellaneous office expenses. Compared to fiscal 2005, $57.2 million, these expenses decreased slightly because advertising expenses were lower.

BDC Financing Operations Efficiency Ratio
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
Efficiency Ratio	48.5	47.8	48.7	48.5	**48.9**

BDC measures efficiency and productivity with the "efficiency ratio", which compares operating expenses to net interest and other income. A lower ratio indicates better efficiency. In fiscal 2006, the ratio was 48.9%, slightly higher than 2005. This is due to increased pension costs and increases in operating costs in order to gear up for future growth.

OUTLOOK FOR FISCAL 2007

In Canada's strong economic climate, demand for BDC's services is expected to remain strong and to gradually build up the financing portfolio to $9.4 billion in 2007. Consequently, there will be a corresponding increase in all elements of the income statement, including such cost elements as the provision for credit losses and operating expenses. The five-year Corporate Plan projects profits from BDC Financing operations will remain strong, at or near the $130 million mark annually.

BDC's growth in traditional lending is affected by the increased presence of the other market players. In light of its complementary, higher risk role, BDC will migrate where market gaps are more evident. As a result, BDC expects that client demand for its specialized solutions – typically higher risk and smaller loans - will increase for the coming years. Consequently, staffing levels should increase, as will related costs such as training and premises. BDC also expects to have six new branches in operation for fiscal 2007.

In 2007, pension costs will rise dramatically by $9 million, despite no significant changes in the pension benefit plan. This is due to the low discount rate, which increases the actuarial value of the future liability. Yet, a return to higher interest rates, together with the pension contributions which are now being made by both employees and BDC, may reduce pension costs.

BDC SUBORDINATE FINANCING

BDC Subordinate Financing offers a specialized high risk form of financing, commonly referred to as "mezzanine financing" which involves elements of both lending and equity investing. BDC offers it through a partnership agreement between BDC and the *Caisse de Dépot et placement du Québec*, which is managed by BDC. In fiscal 2006, including this partnership, BDC Subordinate Financing authorized $93 million, of which BDC's portion was $47 million.

Pursuant to BDC's decision to measure investments at fair value in 2006, BDC now records all changes to the estimated fair value as income or loss in the year in which they occur. This change in accounting policy was applied prospectively, which had the effect of increasing income of BDC Financing by $1 million in 2006. As of March 31, 2006, $95 million of subordinate financing investments have been included in BDC's portfolio.

BDC CONSULTING OPERATIONS

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
BDC Consulting Revenue	$ 18.9 M	$ 21.0 M	$ 21.6 M	$ 23.0 M

BDC Consulting offers a comprehensive range of business solutions to support the innovation, productivity and operational efficiency of Canadian SMEs. These solutions, coupled with a renewed focus on an integrated approach to better serve its clients, helped increase BDC Consulting mandates from 1,886 in 2005 to 2,037 in 2006, with an average mandate size of $10,800.

In fiscal 2006, BDC Consulting achieved $21.6 million in revenue versus $18.9 million in fiscal 2005.

BDC Consulting Revenue
for the years ended March 31
$ in millions

	2002	2003	2004	2005	2006
Consulting Revenue	18.2	18.2	20.0	18.9	21.6

BDC Consulting has planned to add more reach by increasing mandates from 2,000 to 4,000 by fiscal 2010. Consequently, in fiscal 2007, BDC has decided to commit $3 million to strategically position its consulting services as a premier, affordable, value-added source of support to its clients. This funding will be deployed for core consulting solutions and to recruit and train staff to better serve and assist Canadian SMEs to reach their potential.

BDC VENTURE CAPITAL OPERATIONS

BDC's public policy mandate is to support Canadian entrepreneurship by providing financial, investment and consulting services. In doing so, BDC pays particular attention to the needs of small and medium-sized developing businesses. BDC Venture Capital addresses the especially high-risk and financing gaps by offering to take equity positions in qualifying businesses.

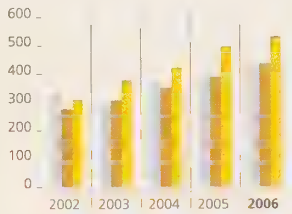
During fiscal 2006, BDC was active in that market and authorized 81 direct investments for a total of $106 million versus 78 investments for $118 million in 2005. As well, BDC authorized $34 million in two specialized funds in fiscal 2006, compared to two funds for a total of $25 million in 2005.

BDC Venture Capital activity is a significant share of the Canadian market. However, a persistent lack of divestiture opportunities in recent years has constrained investment income although some improvement occurred in 2006. Net gains on disposals of investments increased to $21.6 million in 2006 compared to $12.7 million in 2005.

Venture Capital investment divestitures depend on the success of individual investments and prevailing market conditions. Accordingly, the financial results can be very volatile from year-to-year. In line with its mandate, BDC invests in enterprises which can reasonably be expected to prove successful. Management believes that the investments currently being made will, in aggregate, be successful in the long term. However, the IPO (Initial Public Offering) market and takeover activity has been limited for several years and this has significantly affected BDC's 10-year annual internal rate of return.

In 2006, BDC implemented a change of accounting policy to adopt *fair value* valuation as the methodology for reporting venture capital investments. Previously, unsuccessful investments that had incurred permanent impairment were written-down (carrying value); in 2006 all investments have been valued at fair value. The net change in value of $28 million has been recorded in the income statement as a charge for the year. During fiscal 2006, BDC Venture Capital investments were transferred to the new wholly-owned subsidiary, BDC Capital Inc. The creation of the subsidiary will improve internal reporting and comply with current accounting practices and guidelines.

Valuation of BDC Venture Capital – Total investments
as at March 31
$ in millions

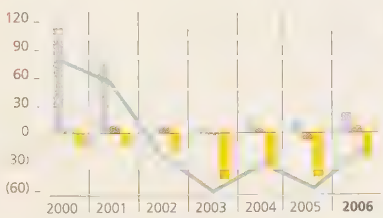


	2002	2003	2004	2005	2006
Fair value	327	288	366	393	**431**
Carrying value	271	302	346	384	**431**
Cost	307	373	417	491	**526**

The accompanying chart shows the volatility of BDC Venture Capital operations, which generally reflect the results of venture capital enterprises in those years. During fiscal 2000 and 2001, BDC Venture Capital recorded exceptional profits of $80 million and $56 million respectively. In each of the past five years, however, market conditions have produced losses.

In 2006, the net loss was $13 million. This compares with the loss of $56 million last year. The outlook for 2007 is positive and projects further improvements.

BDC Venture Capital Operations - Results
for the years ended March 31
$ in millions



	2000	2001	2002	2003	2004	2005	2006
Net gains on disposals of investments	112.7	75.8	1.7	3.8	12.7	12.7	**21.6**
Other*	1.6	8.4	7.0	(1.7)	4.9	(8.0)	**6.9**
Write-down of investments / unrealized depreciation (2006)	(14.7)	(13.3)	(18.9)	(50.0)	(36.8)	(47.4)	**(27.7)**
Venture Capital operating profit (loss)	80.0	56.2	(21.0)	(59.5)	(30.3)	(56.1)	**(12.8)**

* Includes interest and dividends. Also includes unrealized gains/losses on temporary investments up to 2005

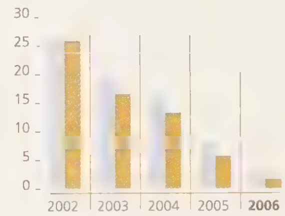
BDC also invests in third party venture capital funds, and currently has investments aggregating $35 million in 13 such funds. In fiscal 2006, related to these funds, BDC recorded an expense of $7.9 million in its venture capital results, compared to $19.6 million in 2005.

Venture capital investing involves a long term commitment, particularly as BDC invests in very early-stage enterprises and is a patient investor. Successful initial investments invariably need additional rounds of investment for expansion or commercialization and BDC supports the growth of such high potential companies.

Industry practice uses the internal rate of return (IRR) to measure the success of funds or groups of investments. IRR is the annual discount rate at which the values of cash flows from the portfolio yield the original investment. Despite its usefulness as a benchmark for BDC, the measure can only be considered as indicative because of BDC's longer commitment and its policy of divesting successful investments as soon as market conditions permit. BDC uses a moving 10-year IRR to monitor the performance of its portfolio.

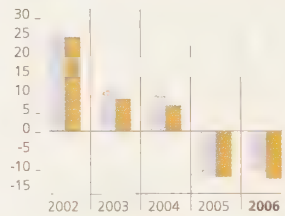
The profits in 2000 and 2001 offset the losses in the more recent years, and without these profits the returns would be reduced, as seen in the 5-year IRR chart below.

BDC Venture Capital 10-year Internal Rate of Return
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
Direct investments	26.1	19.2	15.9	7.9	**3.3**
Total investments	25.6	16.3	13.1	5.6	**1.5**

BDC Venture Capital 5-year Internal Rate of Return
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
Direct Investments	25.6	11.0	9.5	(12.2)	**(10.9)**
Total Investments	24.7	8.6	6.7	(12.0)	**(12.5)**

MARKET RISK – VENTURE CAPITAL RISK MANAGEMENT

Venture capital investments are innately high risk. The return on the investment portfolio depends on the timing of divestitures of successful investments, which are realizable privately or through transactions on public financial markets that depend on equity prices.

BDC mitigates the risks of venture capital investments by undertaking a detailed due diligence process prior to executing the transaction which focuses on the product, on management and the markets in which the company operates. BDC investigates a company's products and/or services before investing, and favours breakthrough technology platform products which demonstrate uniqueness or have clear advantages over existing solutions. BDC also assesses the experience, expertise and commitment of management, as these factors are key in understanding the risk of a venture capital investment. Finally, BDC studies the size and dynamics of the market in which the target company is operating, as well as competition that might exist or that may develop in the foreseeable future. Where it is deemed to be prudent, BDC hires external resources to independently validate any or all aspects of BDC's own due diligence efforts.

BDC attempts to further lower the risk of its venture capital investment activities by applying conservative valuations, syndicating most of its investments with other venture capital investors and through regular monitoring. Divestiture of successful investments occurs by takeover, or by an investee company going public by means of an initial public offering. BDC divests of such traded shares on a phased basis, taking into account market conditions in order to maintain an orderly market.

VENTURE CAPITAL PORTFOLIO MANAGEMENT

In such a fast-moving and high-risk sector as venture capital, it is vital for BDC to periodically evaluate the position and market impact of investee companies in its venture capital portfolio. On average, BDC has five companies per investment director in its portfolio. In 2006, BDC adopted the fair value method to value its investments, and an independent evaluation committee performs a thorough review of each holding bi-annually to review performance and estimate the fair value. That valuation indirectly serves to mitigate the market risk on the portfolio.

PENSION SUMMARY

BDC's pension plans and other benefit obligations are based on actuarial valuations and certain assumptions which are detailed in Note 21 of the Consolidated Financial Statements. The calculation of those obligations is influenced by a number of factors, particularly the discount rate used to value the future liability. For accounting measurement purposes, the discount rate used at each measurement date is based on market interest rates for long-term high-quality debt instruments (5.25% at December 2005).

During fiscal 2006, the decrease in the discount rate from 6.0% to 5.25% led to an actuarial deficit for *accounting* purposes for the registered pension plan of $17 million versus an actuarial surplus of $24 million in fiscal 2005. This illustrates the interest rate sensitivity of actuarial valuations. The impact of a 50 basis points increase in the discount rate in the future, with all other assumptions held constant, would result in an actuarial surplus of approximately $23 million.

Registered pension plan funding requirements are determined by the *Pension Benefits Standards Act* of 1985 and related regulations. Funding limits are defined in the *Income Tax Act* and regulations. Employer and employee contributions to the BDC Registered Pension plan were temporarily suspended from 1994 and 1997 respectively until 2005, due to funding surpluses. Effective July 2005, employee contributions are being gradually phased in, with full contributions under the terms of the Plan in July 2007.

As of December 2004 and 2005, the RPP enjoyed a *funding surplus* on a going-concern basis, but a *funding deficit* on a hypothetical solvency basis. Consequently, employer contributions of $20.5 million were made in fiscal 2006, and another $25 million will be contributed in 2007. The Supplemental Plan has historically been unfunded, but in 2006 BDC elected to contribute $14 million to reduce the magnitude of the unfunded liability.

OPERATIONAL RISK

Every business decision or transaction involves elements of risk.

Operational Risk is the risk of potential losses arising from day-to-day errors caused by people, breakdowns in processes or systems, or from rare but severe events, such as natural disasters. BDC has appropriate internal control systems and processes in place for its business transactions. A comprehensive set of policies and procedures governs information processing, loan operations, human resources management and other key operational functions. BDC's review of its top risks includes action plans intended to govern operational risks.

BDC has a comprehensive business recovery planning process to ensure continuity of its key business functions in case of disaster, and regularly reviews and tests its contingency planning.

BDC manages the risks associated with technology and telecommunications failures through programs for replacement and upgrading of computer systems and equipment. Security and control procedures are in place to respect laws and privacy standards and to ensure that information is managed accurately and efficiently, and these are tested regularly to ensure reliability.

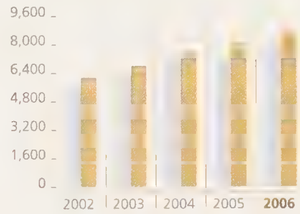
Written-off accounts are reviewed and any operational risks associated with loan operations are identified. From a compilation of these risks, internal control procedures can be modified if necessary.

BALANCE SHEET

BDC's principal asset is its loan portfolio. In fiscal 2006, this grew 8.6% to $8.2 billion, net of allowances for credit losses. Subordinate financing investments, which are now reported at fair value, grew 77% to $95 million. Venture capital investments, which now are also reported at fair value, grew 12% to $431 million. As well, BDC maintains sufficient levels of liquidity ($930 million as of year-end) to ensure that funds are available to meet customer needs.

As of March 31, 2006, portfolios and liquid assets at $9.6 billion are funded by borrowings of $7.9 billion and equity of $1.7 billion. Other assets and liabilities also include related derivative financial instruments and the hedging of exposures on borrowing transactions, which largely offset each other.

Total Outstanding Loans vs Borrowing
as at March 31
$ in millions



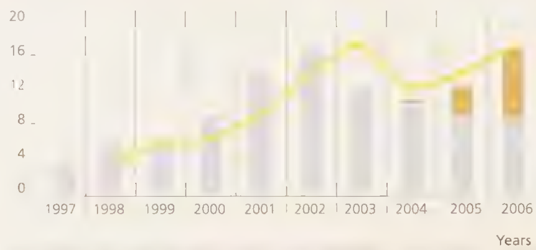
	2002	2003	2004	2005*	2006*
Borrowings	5,597	6,174	7,181	7,288	**7,876**
Loans	6,071	6,721	7,465	8,012	**8,681**

* Excluding subordinate financing investments

Fixed assets of $38 million comprise furniture, leasehold improvements and capitalized information technology investments, net of the appropriate amortization.

Total shareholder's equity of $1.7 billion grew by $122 million during 2006, including the net income after dividends declared of $16.5 million. BDC pays dividends on both its common and preferred shares that are outstanding at year end. As of March 2006, BDC has remitted a total of $98 million in dividends over ten consecutive years. As well, based on 2006 performance, a common dividend of $12.1 million was declared after year end, which will be paid and recorded in fiscal 2007.

Dividends
for the years ended March 31
$ in millions



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Preferred dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.3	9.0	8.7
Common dividends declared	–	–	–	–	–	–	–	0.4	3.3	7.8
Total dividends declared	3.4	6.0	6.0	8.9	13.8	16.7	12.2	10.7	12.3	16.5
Total dividends paid	–	3.4	6.0	6.0	8.9	13.8	17.5	11.8	13.6	16.8

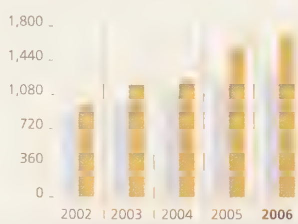
* In addition, based on BDC's fiscal 2006 performance, common dividends of $12.1 million were declared after March 31, 2006 and will be paid and recorded in fiscal 2007

The Government of Canada establishes regulatory capital for BDC to support its various loan and investment products. It is calculated based on the following capital adequacy ratios:

Term lending	10:1
Subordinate Financing	4:1
Venture Capital investments	1:1

As seen in the graph below, BDC operates in accordance with its capital adequacy guidelines.

Capital Adequacy
as at March 31
$ in millions

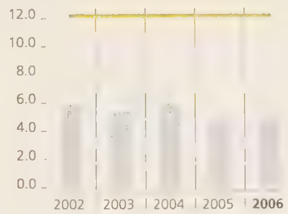


	2002	2003	2004	2005	2006
Regulatory	869	962	1,086	1,189	**1,316**
Actual	960	1,170	1,219	1,570	**1,691**

For the year ended March 31, 2006 BDC operated within all the statutory limits stipulated in the *Business Development Bank of Canada Act*.

The debt-to-equity ratio was steady at 4.7:1, significantly under the required statutory limit of 12:1.

Debt : Equity
as at March 31

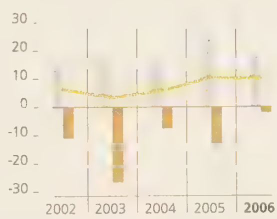


	2002	2003	2004	2005	2006
Actual	5.8	5.3	5.9	4.6	**4.7**
Statutory Limit	12.0	12.0	12.0	12.0	**12.0**

Performance Measurement	F2005 Actual	F2006 Objective	F2006 Actual	F2007 Objective
ROE at least equal to the government's average long-term cost of funds	9.7%	7.7%	9.2%	8.2%

Return on common equity was 9.2%, surpassing the objective level of 7.7% but slightly lower than the 9.7% in fiscal 2005 due to the higher equity base. The return on equity for BDC Financing and BDC Consulting operations, calculated on a stand-alone basis, was 6.3% lower than in fiscal 2005. This was mostly due to the $27 million charge in the general provision in fiscal 2006 to cover the fast-growing portfolio. Although BDC Venture Capital operation's return on equity was still negative, it improved substantially, from a negative 14.9% in fiscal 2005 to a negative 2.6% in fiscal 2006.

Return on Common Equity
for the years ended March 31
percentage



	2002	2003	2004	2005	2006
BDC Financing and BDC Consulting	15.1	16.5	14.1	23.3	**17.0**
BDC Venture Capital	(11.6)	(27.0)	(8.1)	(14.9)	**(2.6)**
Total BDC	5.7	2.7	5.1	9.7	**9.2**

TREASURY RISK MANAGEMENT

Treasury Risks are risks arising from the funding of BDC's balance sheet and operations. BDC's Treasury Risk Framework provides for identification, measurement, control and mitigation of treasury risks, which include liquidity risk, market risk, counterparty credit risk, operational risk and legal/regulatory risk.

Liquidity Risk is the risk that BDC would be unable to honour all contractual cash outflows as they become due.

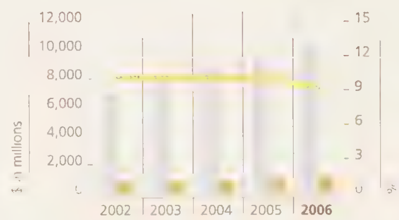
BDC's Treasury operations' primary responsibility with liquidity management is to ensure that BDC has the capacity to meet its payment obligations on a timely and cost-effective basis. BDC has a well-defined liquidity and investment management policy, which includes liquidity limits that are monitored daily by the Treasury Risk Management Unit. BDC's policy also provides clear guidelines for issuing institutions, all of which are rated A and better. This ensures that BDC's short-term investments are placed in liquid assets in order to be accessible when needed. In addition, at least 75% of short-term investments are to be invested within a term of 100 days. As at March 31, 2006, 80% of BDC's liquidity investments were to mature within 100 days.

CASH, SHORT-TERM INVESTMENTS AND SECURITIES

as at March 31, 2006 ($ in millions)	Term to maturity		
Credit Rating*	Less than 3 months	3 months to 1 year	1 to 5 years
AAA	321.3	0.0	0.0
AA- to AA+	321.5	48.9	104.0
A to A+	128.8	5.8	0.0
Total	771.6	54.7	104.0

* From major credit agencies

Liquidity Ratio
as at March 31



	2002	2003	2004	2005	2006
Total assets	6,897	7,791	8,809	9,445	10,311
Cash, short-term investments and securities	715	794	865	903	930
Liquidity ratio (as a % of assets)	10	10	10	10	9

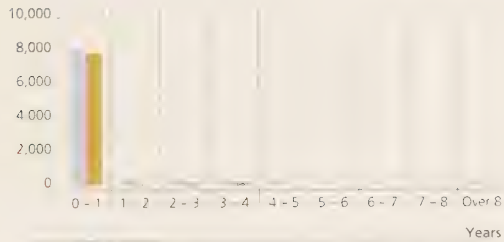
Market Risk is the risk that the value of assets, liabilities or other financial instruments will vary because of adverse changes in market conditions, resulting in losses for BDC.

BDC funds its operations by issuing commercial paper and mid to long-term notes. BDC is permitted by law to issue debt in the domestic and foreign markets, under various types of currencies and structures, as long as the exposure to the currencies is hedged in Canadian dollars and the underlying instruments to the structure are swapped into Canadian floating or fixed interest rates. All hedging transactions are completed with approved high-quality counterparties, all of which are rated A- and better.

Interest Rate Risk is the risk that market interest rate fluctuations lead to a loss in the value of financial instruments.

An asset/liability mismatch occurs when the terms of BDC's interest-rate-sensitive liabilities are not matched with the terms of its interest-rate-sensitive assets. BDC uses borrowing strategies and derivative instruments to manage the gaps. The following graph shows the asset/liability position as at March 31, 2006, after taking into account derivative transactions.

Interest Rate Sensitivity
Asset and Liability Gap
as at March 31, 2006
$ in millions



	0 – 1	1 – 2	2 – 3	3 – 4	4 – 5	5 – 6	6 – 7	7 – 8	Over 8
Assets*	8,002	440	355	287	304	76	57	44	120
Liabilities	7,802	74	90	140	0	0	0	0	0

*Before allowance for credit losses

The Treasury Risk Policy provides guidance for the proactive management of market risk exposure arising from potential adverse movements in interest rates. The purpose of the policy is to minimize the impact of these variations on net interest income and BDC's economic value. Latitudes have been set on the sensitivity of the net interest income projected over the next 12 months when subject to a parallel movement of the Canadian yield curve of 200 basis points. Adequate asset/liability matching is also achieved by targeting the duration of BDC's equity.

Issuer/Counterparty Risk is the risk of a possible downgrade of the credit worthiness of a counterparty or its possible default resulting in a loss in the value of outstanding instruments and contractual obligations with this counterparty.

To adequately mitigate the credit risk inherent in Treasury activities, the Treasury Risk Management Unit (TRMU) identifies and measures the current credit risk exposure with issuers and derivative counterparties. The TRMU also ensures that BDC enters into prescribed derivative transactions with counterparties of an acceptable credit rating, with whom an International Swaps and Derivatives Association (ISDA) Master Agreement is duly signed. The ISDA agreement also includes a Credit Support Annex which defines a limit over which a collateral transfer is required from the counterparty to bring back the value of its credit risk exposure under the threshold amount. Finally, the TRMU ensures the liquidity portfolio is composed of securities issued or guaranteed by entities of acceptable credit rating.

COUNTERPARTY CREDIT RISK EXPOSURE

as at March 31, 2006
($ in millions)

	Term to maturity						
	Gross exposure						
Credit Rating*	1 year and under	Over 1 year to 3 years	3 years and over	Gross exposure	Netting agreements**	Collateral held	Net exposure
AAA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AA- to AA+	36.9	74.3	172.7	283.9	(98.4)	(79.1)	106.4
A to A+	11.2	50.3	34.8	96.3	(45.2)	(27.4)	23.7
Total	48.1	124.6	207.5	380.2	(143.6)	(106.5)	130.1

* From major credit agencies
** Impact of master netting agreements

Operational Risk is the risk of losses resulting from inadequate internal systems and communications devices, lack of controls and sound processes, fraud, human error or external events. Although the occurrence of this risk may never be fully eliminated, Treasury limits the severity of operational risk by adopting procedures and controls for daily operational management of treasury operations, for the settlement and accounting of every transaction, and for the maintenance of systems supporting treasury activities.

Legal and Regulatory Risk arises when transacting with a counterparty lacking the legal or regulatory authority to engage in a transaction, when adverse changes in legislation affect the value of a set of transactions or because of non-existent or inappropriate derivatives documentation (ISDA Master Agreement).

CORPORATE PLAN DISCUSSION

COMPARISON WITH FISCAL 2006 PLAN

Financing authorizations of $2.5 billion were again strong and met the Plan objectives as did the financing portfolio which reached $8.8 billion at year end, exactly on plan, with higher disbursements compensating for higher prepayments. Consequently the net interest income and other income generated by that portfolio met Plan objective of $473 million.

Strong credit performance, reflecting favourable economic conditions, led to a provision for credit losses of $88 million, lower than the Plan level of $136 million, which had anticipated a return to credit conditions more in line with BDC's long-term loan loss experience. During the year, staff levels increased more rapidly than planned to meet future demand. Consequently, operating and administrative expenses of $231 million were $7 million higher than Plan. The efficiency ratio was 48.9% compared to the planned level of 47.4%

BDC Venture Capital recorded a loss of $13 million for 2006, compared to the planned income of $5 million. However, it is considerably better than the $56 million loss in 2005. Improvement in the market enabled some profitable divestitures.

Implementation of the *fair value* valuation method for investments in fiscal 2006 was an important change in accounting policy which was not provided for in the Corporate Plan. Consequently, the former "write-down of investment" of $40 million has been changed to a *fair value adjustment* in 2006 of $28 million.

Consolidated BDC net income of $138 million was significantly better than the $115 million in the Corporate Plan. Pursuant to its dividend policy, BDC will be paying a total dividend of $21 million to the Government of Canada, including $12.1 million on common shares, based on fiscal 2006 performance. This common share dividend was declared subsequent to March 31, 2006, which will be paid and recorded in fiscal 2007.

2007 OUTLOOK AND CORPORATE PLAN

Fiscal 2007 is expected to be another solid year for BDC. The Plan projects continuing favourable economic conditions, and a steady demand for BDC services. Accordingly, the 2007 Corporate Plan forecasts have been adjusted with higher internal objectives. Financing portfolio growth will increase net interest and other income to $504 million, and the provision for credit losses and change in unrealized depreciation of investments will total $118 million. Staff additions to support growth and higher pension costs will increase operating expenses to $250 million, yielding net income of $136 million from BDC Financing operations, compared to the $120 million planned level in the Corporate Plan.

In fiscal 2007, BDC Consulting anticipates generating $23 million in revenue and achieving 2,200 mandates with Canadian SMEs. BDC has decided to commit a $3 million investment in 2007 to be deployed for core consulting solutions and to recruit and train staff to better serve and assist Canadian SMEs to reach their potential. This will bring the loss from consulting operations to $6 million for the year.

BDC Venture Capital activities will continue at a strong pace. The venture capital investments outstanding should reach a fair value of $457 million at year end. It is anticipated BDC Venture Capital will return to profitability in fiscal 2007 with a net income of $4 million, including a projected $14 million net loss related to the fair value of investments.

BDC consolidated net income is now projected at $134 million, compared to $123 million in the 2007 Corporate Plan.

BDC will again pay dividends of approximately $21 million to the Government of Canada.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

BDC's accounting policies are summarized in note 2 of the Consolidated Financial Statements. The policies which follow are considered significant as they can materially impact the financial results and require that management make certain decisions based on assumptions and estimates which reflect information available at the date of the financial statements. BDC has established internal control procedures, including formal representations and certification by senior officers, to ensure that accounting policies are applied consistently to *fairly present* the financial results. BDC's critical accounting estimates include the allowance for credit losses and the estimate of fair value for venture capital and subordinate financing investments. The assumptions used for pension and other benefits are detailed in Note 21 to these consolidated financial statements.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's estimate for probable losses incurred in the financing portfolio. The allowance for credit losses is comprised of the specific allowance and general allowance. The specific allowance is determined through management's identification and determination of losses related to impaired loans. The general allowance is determined through management's judgement and assessment of probable losses in the performing financing portfolio.

The process at year-end for determining the allowance is supported by quantitative and qualitative assessments using current and historical credit information. The process requires the use of certain assumptions and judgement including: i) assessing the impaired status of a loan; ii) estimating cash flows and collateral values; iii) developing default rates and loss rates based on historical data; iv) adjusting loss rates based on the relevance of historical experience; v) assessing changes in credit strategies, process and policies; vi) assessing the current quality of the portfolio based on credit quality trends in relation to impairments; and vii) determining the current position in the economic and credit cycle.

BDC's allowance for credit losses involves judgement and is maintained at a prudently conservative level in recognition of the relatively high-risk profile of its financing activities.

FAIR VALUE ESTIMATES FOR INVESTMENTS

Accounting Guideline 18 – *Investment Companies* (AcG-18)

In fiscal 2006, BDC prospectively applied AcG-18, *Investment Companies*, published by the Canadian Institute of Chartered Accountants (CICA). Consequently BDC adopted fair value valuation as the method of reporting investments.

Fair value is defined as the price an unrelated third party person would pay for an investment. BDC's approach to fair value measurement has been derived by guidelines issued by the industry. Based on the type of investments BDC carries out, BDC will normally use market based valuation methodologies. These are the quoted investments or listed share price and price of recent investment methodologies. Other methodologies will be considered when the company has maintainable profits and/or maintainable positive cash flows (earning-based approaches) or when the company is in financial distress (liquidation or asset-based approach).

Investments denominated in a foreign currency are translated into Canadian dollars based on the rate of exchange on the Balance Sheet date.

Fair value changes are recorded in the income statement as change in unrealized appreciation or depreciation of investments.

Accounting Guideline 15 – *Consolidation of Variable Interest Entities* (AcG-15)

On April 1, 2005 BDC adopted the CICA guideline AcG-15, *Consolidation of Variable Interest Entities* (VIEs). Where the entity is considered a VIE, the Primary Beneficiary is required to consolidate the VIE in its financial statements. The Primary Beneficiary is the entity that is exposed to a majority of the VIE's expected losses or is entitled to a majority of the VIE's expected residual returns. There is a significant amount of judgement exercised in interpreting the provisions of AcG-15. In addition, AcG-15 prescribes certain disclosures for VIEs that are not consolidated but in which the entity has a significant variable interest. For further details on BDC's involvement with VIE's, refer to Note 9 of the Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME

The CICA has issued three new accounting standards:

Section 1530, Comprehensive Income;
Section 3855, Financial Instruments – Recognition and Measurement; and
Section 3865, Hedges.

These pronouncements establish standards for the recognition, measurement and disclosure of financial instruments. These standards will be effective for BDC on April 1, 2007. The impact of implementing these new standards on BDC's Consolidated Financial Statements has not yet been determined. For further details of these changes refer to Note 3 of the Consolidated Financial Statements.

Management's responsibility FOR FINANCIAL INFORMATION

The consolidated financial statements of the Business Development Bank of Canada were prepared and presented by Management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year, except for the change in accounting policy adopted in the current year as explained in Note 3 to the consolidated financial statements. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the consolidated financial statements.

In discharging its responsibility for the integrity, fairness and quality of the consolidated financial statements and for the accounting systems from which they are derived, Management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice President, Internal Audit and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing Management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual consolidated financial statements.

The Bank's independent auditors, Raymond Chabot Grant Thornton LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's consolidated financial statements and their report indicates the scope of their audit and their opinion on the consolidated financial statements.

Jean-René Halde
President and Chief Executive Officer

Alan Marquis
Senior Vice President, Finance
and Chief Financial Officer

Montréal, Canada
May 19, 2006

Auditors' REPORT

To the Minister of Industry

We have audited the consolidated balance sheet of the Business Development Bank of Canada as at March 31, 2006 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change in accounting policy adopted in the current year as explained in Note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act*, the by-laws of the Bank and the charter and the by-laws of its wholly-owned subsidiary.

The financial statements for the year ended March 31, 2005 were audited by the Auditor General of Canada and other auditors who expressed an opinion without reservation on those statements in their report dated May 20, 2005.

Sheila Fraser, FCA
Auditor General of Canada

Raymond Chabot Grant Thornton LLP
Chartered Accountants

Montréal, Canada
May 19, 2006

Consolidated FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

as at March 31 ($ in thousands)

	2006	2005
ASSETS		
Cash and cash equivalents (Note 4)	**$ 752,730**	$ 756,355
Securities (Note 5)	**177,555**	146,348
	930,285	902,703
Loans, net of allowance for credit losses (Notes 6 and 7)	**8,178,576**	7,528,973
Subordinate financing investments (Note 8)	**95,205**	53,865
Venture capital investments (Note 9)	**431,379**	383,649
	8,705,160	7,966,487
Fixed assets, net of accumulated amortization (Note 10)	**37,661**	41,147
Derivative-related assets (Note 18)	**545,711**	445,320
Other assets (Note 11)	**92,606**	89,504
	675,978	575,971
TOTAL ASSETS	**$ 10,311,423**	$ 9,445,161
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	**$ 77,624**	$ 75,650
Accrued interest on borrowings	**21,206**	20,609
	98,830	96,259
Borrowings (Note 12)		
Short-term notes	**4,199,347**	3,437,008
Long-term notes	**3,676,821**	3,851,248
	7,876,168	7,288,256
Derivative-related liabilities (Note 18)	**511,606**	352,527
Other liabilities (Note 13)	**133,542**	138,550
SHAREHOLDER'S EQUITY		
Share capital (Note 14)	**1,038,400**	1,038,400
Contributed surplus	**27,778**	27,778
Retained earnings	**625,099**	503,391
	1,691,277	1,569,569
Guarantees, contingent liabilities and commitments (Note 20)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 10,311,423**	$ 9,445,161

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

Approved by the Board:

Terry B. Grieve, CA
Director
Chairperson Audit Committee

Jean-René Halde
Director
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the years ended March 31 ($ in thousands)

	2006	2005
FINANCING		
Interest Income		
Loans	$ 620,883	$ 538,323
Short-term investments and securities	26,251	24,357
	647,134	562,680
Interest expense	213,871	160,319
Net interest income	433,263	402,361
Other income	39,375	38,140
Change in unrealized appreciation of investments	959	–
Provision for credit losses (Note 7)	87,601	54,232
Income before operating and administrative expenses	385,996	386,269
Operating and administrative expenses (Note 16)	231,254	213,751
Income from Financing	154,742	172,518
CONSULTING		
Revenue	21,570	18,924
Operating and administrative expenses (Note 16)	25,352	21,811
Loss from Consulting	(3,782)	(2,887)
VENTURE CAPITAL		
Net gains on disposals of investments	21,571	12,743
Interest, dividends and other	6,958	1,636
Change in unrealized depreciation of investments	(27,695)	–
Unrealized losses on temporary investments	–	(9,680)
Write-down of investments	–	(47,384)
Income (loss) before operating and administrative expenses	834	(42,685)
Operating and administrative expenses (Note 16)	13,613	13,458
Loss from Venture Capital	(12,779)	(56,143)
NET INCOME	$ 138,181	$ 113,488
RETAINED EARNINGS		
Beginning of year	503,391	402,281
Dividends on common shares	(7,757)	(3,348)
Dividends on preferred shares	(8,716)	(9,030)
End of year	$ 625,099	$ 503,391

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements and Note 15 provides additional information on earnings

Consolidated FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended March 31 ($ in thousands)

	2006	2005
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	**$ 138,181**	$ 113,488
Adjustments to determine net cash flows:		
Net gains on disposals of venture capital investments	**(21,571)**	(12,743)
Change in unrealized depreciation on investments	**26,736**	–
Unrealized losses on temporary investments	–	9,680
Write-down of venture capital investments	–	47,384
Provision for credit losses	**89,853**	54,757
Amortization of fixed assets	**14,934**	12,088
Changes in operating assets and liabilities		
Change in interest receivable on financing	**(4,742)**	322
Change in accrued interest on borrowings	**597**	(1,286)
Translation adjustment on borrowings and securities	**(10,396)**	(216,499)
Change in derivative-related assets	**(100,391)**	54,944
Change in derivative-related liabilities	**159,079**	151,352
Net change in other assets and other liabilities	**(6,313)**	18,505
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	**285,967**	231,992
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of securities	**(56,972)**	(70,600)
Maturities of securities	**15,037**	10,112
Maturities of securities purchased under resale agreements	–	97,493
Disbursements for loans and surbordinate financing	**(2,495,777)**	(2,148,754)
Repayments of loans and surbordinate financing	**1,721,171**	1,488,905
Disbursements for venture capital investments	**(123,651)**	(104,206)
Proceeds on sales of venture capital investments	**69,797**	21,861
Acquisition of fixed assets	**(11,448)**	(12,566)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(881,843)**	(717,755)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net change in short-term notes	**719,182**	37,035
Issue of long-term notes	**689,602**	898,456
Repayment of long-term notes	**(799,746)**	(605,614)
Proceeds from issue of common shares	–	250,000
Dividends paid on common and preferred shares	**(16,787)**	(13,631)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	**592,251**	566,246
Net increase (decrease) in cash and cash equivalents	**(3,625)**	80,483
Cash and cash equivalents at beginning of year	**756,355**	675,872
Cash and cash equivalents at end of year (Note 4)	**$ 752,730**	$ 756,355
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Amount of interest paid in the year	**$ 213,274**	$ 161,605

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

1 – ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

During the year, the Bank created a wholly-owned subsidiary, BDC Capital Inc., and transferred all of its Venture Capital investments and related activities into this subsidiary.

(The terms "the Bank" and "BDC" are used interchangeably throughout the consolidated financial statements, both meaning the Business Development Bank of Canada).

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of lending, investment and consulting services complementary to those of commercial financial institutions. The Bank offers Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act (BDC Act)* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments, of which none were outstanding as at March 31, 2006.

The Bank is for all purposes an agent of Her Majesty in right of Canada. The Bank is also named in Part I of Schedule III to the *Financial Administration Act*.

2 – SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that Management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ significantly from those estimates. Significant estimates include allowances for losses on loans, actuarial estimates of employee future benefits and consideration of fair values of investments. A variation in the quality of the portfolio or economic conditions under which these estimates are made could result in significant changes in these Management judgments. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of Consolidation

The Bank conducts business through a variety of corporate structures, including a subsidiary and joint ventures. The subsidiary is controlled through a 100% share ownership of its voting shares. Joint ventures are those where the Bank exercises joint control through an agreement with other parties. All of the assets, liabilities, revenues and expenses of the wholly-owned subsidiary, as well as the Bank's proportionate share of the assets, liabilities, revenues and expenses of the joint ventures are included in these consolidated financial statements. All significant inter-company transactions and balances have been eliminated.

Securities

The Bank holds securities for liquidity purposes based on policies approved by the Board of Directors. Section 18(3) of the BDC Act defines the nature of the debt securities which can be held by the Bank.

Debt securities are purchased with the intention of being held to maturity and are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

For impaired loans measured on the basis of expected future cash flows, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects Management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries. Loans are written-off when all collection efforts have been exhausted and no further prospect of recovery is likely.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio at the balance sheet date for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and Management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Investments

Venture capital investments and subordinate financing investments are measured and presented at fair value.

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents Management's best estimate of the net worth of an investment at the balance sheet date, and may not reflect the ultimate realizable value upon the disposition of the investment.

Gains and losses on disposals of investments are recognized at the time of disposal. Interest and dividends are recognized in income when received. Changes in unrealized appreciation and depreciation of investments, including those related to foreign exchange, are measured and recognized in income at the balance sheet date.

Fair value of investments is established as follows:

BDC's approach to fair value measurement has been derived by guidelines issued by the industry. Based on the type of investments BDC carries out, BDC will normally use market-based valuation methodologies. Significant assumptions used in the determination of fair value can include discount or capitalization rate, rate of return and the weighting of forecasted earnings.

Publicly traded investments are valued at the closing share price on the balance sheet date, applying marketability discounts if there are restrictions on the tradability or on the transferability of the investment.

In prior years, fair value changes were not recognized in income and all investments were carried at cost. Investments were written-down upon the event of permanent impairment of the investment.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and telecommunication	3 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	6 years
Corporate project development costs	3-7 years

Derivative-related assets

Derivative-related assets include unrealized gains and amounts receivable on derivative financial instruments that are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings at March 31.

Derivative-related liabilities

Derivative-related liabilities include unrealized losses on derivative financial instruments and amounts payable to counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings at March 31.

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year. All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet. The Bank also formally assesses the effectiveness of the hedging relationship at the hedges' inception as well as on a quarterly basis.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used to manage exposure to interest rate risk resulting from the repricing of assets and liabilities. Derivative financial instruments such as cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. Highly effective derivatives used for hedging interest rate risk are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and are presented in derivative related assets or in derivative-related liabilities.

Unrealized foreign exchange and equity translation gains and losses on highly effective cross-currency or equity-linked derivative financial instruments are respectively accrued in derivative-related assets or derivative-related liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. Highly effective derivatives accomplish the objectives of offsetting changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Derivative financial instruments not associated with effective hedging relationships are carried at fair value on the balance sheet, with any change in the fair value charged or credited to the income statement. Deferred gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any previously deferred gain or loss on such derivative instrument is immediately recognized in income under interest expense.

The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Annual valuations, as at December 31, are performed by independent actuaries to determine the present value of accrued pension benefit obligation using the projected benefit method prorated on service and Management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets. The Bank also maintains funded supplemental pension plans and non-funded other benefits for eligible employees.

Components of the change in the Bank's benefit obligations from year to year and the calculations of the pension cost are as follows:

Current service cost represents benefits earned in the current year. These are determined with reference to the current employees and to the amount of benefits they will be entitled to upon retirement, based on the provisions of the Bank's benefit plans.

Interest cost on benefit obligation represents the increase in the pension obligations that results from the passage of time.

2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Actuarial gains or losses may arise in two ways. First, each year, the Bank's actuaries recalculate the benefit obligations and compare them to those estimated as at the prior year-end. The differences that arise from changes in assumptions or from plan experience being different from what were expected by Management at the prior year-end are considered actuarial gains or losses. Secondly, actuarial gains or losses are created when there are differences between expected and actual returns on plan assets. At the beginning of each fiscal year, the Bank's actuaries determine whether the cumulative actuarial loss (gain) is more than 10% of the greater of the fair value of the pension plans asset or accrued benefit obligation balances. Any amount that exceeds this 10% corridor is amortized to expense over the average remaining service period of the Bank's active employees. The average remaining service period of the active employees covered by the registered pension plan is 8.1 years (8.2 years in 2005). The average remaining service period of the active employees covered by the Supplemental pension plan is 8.1 years (8.2 years in 2005). Amounts that fall within the 10% corridor are not amortized.

Expected return on plan assets represents Management's best estimate of the long-term rate of return on assets applied to the fair value of plan assets. Differences between expected and actual returns on plan assets are included in the actuarial gains and losses described above.

Amortization of transitional assets relates to a change in an accounting policy that came into effect on April 1, 2000. At that date, the Bank had a transitional asset that is being amortized to income on a straight-line basis over the average remaining service period of the Bank's active employees expected to receive benefits under the benefit plans as of April 1, 2000. This period ranged from 8.5 years for the Registered Plan to 13 years for the Other Plans.

Pension and Supplemental Pension Benefit Assets

Assets are set aside to satisfy the Bank's pension obligation related to the BDC's registered pension plan. These assets are typically composed of 40% bond investments and 60% equity investments. Retirement benefits for the other supplemental plans were paid out of operations until fiscal 2006 when the Bank began funding. The Other Plans which includes the employee future benefit liability remains unfunded.

3 – CHANGES IN ACCOUNTING POLICIES

Accounting Change Adopted in the Current Year

Investments

In January 2004, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board issued Accounting Guideline AcG-18 *Investment Companies*. This guideline requires investment companies to carry investments at fair value. The Bank decided to apply this new standard to venture capital and subordinate financing investments on a prospective basis starting April 1, 2005. Consequently, direct investments previously carried at cost less permanent impairment are carried at fair value.

The effect of the new accounting policy on 2006 operating results was a change in unrealized depreciation of venture capital investments of $27.7 million and unrealized appreciation of $1.0 million on subordinate financing investments.

Future Accounting Changes

Financial Instruments, Hedges and Comprehensive Income

In April 2005, the CICA issued three new accounting standards in relation with financial instruments:

- Section 1530, *Comprehensive Income*
- Section 3855, *Financial Instruments – Recognition and Measurement*; and
- Section 3865, *Hedges*

The Bank will adopt the CICA's new accounting requirements beginning April 1, 2007.

Section 1530 introduces a new requirement to present certain revenues, expenses, gains and losses, that otherwise would not be immediately recorded in income, in a comprehensive income statement with the same prominence as other statements that constitute a complete set of financial statements.

Section 3855 expands on the CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation*, by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented.

Section 3865 provides alternative accounting treatments to those found in Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on AcG-13, *Hedging Relationships*, and the hedging guidance in Section 1650, *Foreign Currency Translation,* by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The impact of implementing these new standards on BDC's financial statements has not yet been determined.

($ in thousands except as otherwise indicated)

4 – CASH AND CASH EQUIVALENTS

	2006	2005
Bank account balances, net of cheques outstanding	**$ 1,094**	$ (12,142)
Short-term bank notes	**751,636**	768,497
	$ 752,730	$ 756,355

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

5 – SECURITIES

	Term to Maturity			2006	2005
	Within 1 year	1 to 3 years	Over 3 years	**Total**	Total
Financial Institutions					
Carrying value	$ 74,061	$ 59,616	$ 43,878	**$ 177,555**	$ 146,348
Yield	3.23%	4.93%	2.85%	**3.74%**	2.79%
Fair value	$ 74,071	$ 59,729	$ 43,990	**$ 177,790**	$ 146,805
Swap Contracts					
Notional amount	$ 70,947	$ 70,500	$ 49,760	**$ 191,207**	$ 156,100
Adjusted yield*	3.87%	4.00%	4.06%	**3.97%**	2.77%

Amounts denominated in foreign currencies included in the carrying value of securities

			2006	2005
US Dollars – 2005	US$	51,050		
Euro – 2005	€	44,400		$ 131,310
US Dollars – 2006	**US$**	**51,050**		
Euro – 2006	**€**	**53,500**	**$ 135,342**	

* After adjusting for the effect of related derivatives (see Note 18)

All securities held as at March 31 were issued by Canadian entities at fixed and floating rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to hedge the interest rate and the foreign exchange risks associated with the above securities.

6 – LOANS

The following tables summarize the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31.

Loans maturities, based on the earlier of contractual repricing or maturity date

	Within 1 year	1 to 5 years	Over 5 years	Impaired	Total
As at March 31, 2006					
Loans	**$ 418,012**	**$ 2,137,506**	**$ 5,820,886**	**$ 304,168**	**$ 8,680,572**
Allowance for credit losses					
General					**(399,158)**
Specific					**(102,838)**
					(501,996)
Loans, net of allowance for credit losses					**$ 8,178,576**
As at March 31, 2005					
Loans	$ 471,001	$ 1,857,465	$ 5,370,003	$ 313,678	$ 8,012,147
Allowance for credit losses					
General					(372,458)
Specific					(110,716)
					(483,174)
Loans, net of allowance for credit losses					$ 7,528,973

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

6 – LOANS (continued)

Loans interest rate sensitivity, based on the earlier of contractual repricing or maturity date

The effective rates represent historical rates for fixed-rate loans, computed on a weighted-average basis.

	Immediately rate sensitive	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non-rate sensitive	Total
As at March 31, 2006									
Loans	**$ 6,436,719**	**$ 383,810**	**$ 240,690**	**$ 265,429**	**$ 198,819**	**$ 376,823**	**$ 474,114**	**$ 304,168**	**$ 8,680,572**
Effective interest rate		**7.32%**	**7.72%**	**7.58%**	**7.60%**	**6.95%**	**6.80%**		
As at March 31, 2005									
Loans	$ 6,142,513	$ 442,456	$ 308,260	$ 199,013	$ 210,500	$ 155,903	$ 239,824	$ 313,678	$ 8,012,147
Effective interest rate		7.58%	7.60%	7.88%	8.15%	8.09%	7.94%		

The average amount of loans, net of allowance for credit losses, was $7,775,037 in 2006 ($7,080,881 in 2005).

The concentrations of the total loans outstanding by province and territory, and by industry sector as at March 31 are set out in the tables below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	**2006**		2005	
Newfoundland and Labrador	**$ 357,325**	**4.1%**	$ 328,877	4.1%
Prince Edward Island	**43,133**	**0.5%**	46,217	0.6%
Nova Scotia	**217,133**	**2.5%**	184,042	2.3%
New Brunswick	**338,848**	**3.9%**	296,270	3.7%
Quebec	**3,404,555**	**39.2%**	3,194,960	39.9%
Ontario	**2,752,515**	**31.7%**	2,567,632	32.0%
Manitoba	**166,827**	**1.9%**	135,557	1.7%
Saskatchewan	**116,579**	**1.3%**	101,521	1.3%
Alberta	**542,247**	**6.3%**	471,902	5.9%
British Columbia	**685,278**	**7.9%**	630,220	7.8%
Yukon	**26,145**	**0.3%**	24,158	0.3%
Northwest Territories and Nunavut	**29,987**	**0.4%**	30,791	0.4%
Total loans outstanding	**$ 8,680,572**	**100.0%**	$ 8,012,147	100.0%

Industry Sector	**2006**		2005	
Manufacturing	**$ 3,086,399**	**35.6%**	$ 2,928,261	36.6%
Wholesale and retail trade	**2,025,590**	**23.3%**	1,764,744	22.0%
Tourism	**1,059,795**	**12.2%**	1,044,820	13.0%
Business services	**311,606**	**3.6%**	274,240	3.4%
Agriculture & related	**48,264**	**0.6%**	48,998	0.6%
Construction	**462,783**	**5.3%**	373,418	4.7%
Commercial properties	**495,755**	**5.7%**	520,117	6.5%
Transportation & storage	**430,887**	**5.0%**	358,905	4.5%
Other	**759,493**	**8.7%**	698,644	8.7%
Total loans outstanding	**$ 8,680,572**	**100.0%**	$ 8,012,147	100.0%

Included in these loan figures are $20 million of foreclosed assets. Foreclosed assets represent property or other assets the Bank has received from borrowers to satisfy their loan commitments, and are recorded at fair value. Fair value is determined at market prices where available, or other methods including an analysis of discounted cash flows.

($ in thousands except as otherwise indicated)

7 – ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2006	2005
Balance at beginning of year	$ 483,174	$ 487,650
Write-offs and other	(71,306)	(61,207)
Interest income due to accretion	(3,723)	(3,956)
Recoveries	6,250	6,455
	$ 414,395	$ 428,942
Provision for credit losses	87,601	54,232
Balance at end of year	$ 501,996	$ 483,174

8 – SUBORDINATE FINANCING INVESTMENTS

The Bank holds a portfolio of subordinate financing investments through its joint ventures with the Caisse de dépôt et placement du Québec (CDPQ), AlterInvest LP and AlterInvest Inc. BDC acts as the general partner of the limited partnership.

The following table summarizes the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows relating to its interests in the joint ventures.

	2006	2005
Current assets	$ 1,338	$ –
Subordinate financing investments	95,205	53,865
Other assets	–	124
Current liabilities	575	1,034
Investment income	$ 14,613	$ 9,522
Write-down on investments	–	1,366
Change in unrealized appreciation	959	–
Operating and administrative expenses	50	256
Income from subordinate financing investments	$ 15,522	$ 7,900
Cash flows from (used in):		
Operating activities	$ 9,219	$ 6,117
Investing activities	(52,903)	(20,494)
Financing activities	45,996	18,461

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

9 – VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focused on early-stage and fast-growing companies having promising positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.9% of total venture capital investments (3.1% in 2005).

	2006		2005		
Industry Sector	**Cost**	**Fair value**	Cost	Carrying value	Fair value
Biotechnology/Medical/Health	**$ 158,098**	**$ 132,082**	$ 120,202	$ 108,033	$ 115,350
Information Technology	**107,277**	**77,933**	94,727	76,021	70,559
Electronics	**102,590**	**83,501**	111,910	80,927	79,614
Communications	**73,578**	**73,964**	84,592	68,476	71,087
Industrial	**19,456**	**18,991**	14,559	9,574	9,698
Consumer-related	**2,000**	**2,000**	2,537	2,538	2,538
Energy	**5,000**	**500**	6,600	1,300	1,300
Other	**750**	**7,000**	750	750	7,022
Total direct investments	**468,749**	**395,971**	435,877	347,619	357,168
Seed funds	**$ 22,598**	**$ 6,725**	$ 28,838	$ 9,277	$ 9,277
Specialized funds	**34,265**	**28,683**	26,753	26,753	26,753
Venture capital investments	**$ 525,612**	**$ 431,379**	$ 491,468	$ 383,649	$ 393,198

Note: In fiscal 2006, the fair value equals the carrying value

The average amount of venture capital investments was $413,302 in fiscal 2006 (including fair value adjustments) and $374,017 in fiscal 2005 (cost minus permanent impairments).

Investments are generally held for periods longer than five years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year, as the fair value changes of the investments are brought into income. The following table presents a summary of the venture capital portfolio by type of investment.

	2006		2005	
Investment type	**Cost**	**Fair value**	Cost	Carrying value
Common shares	**$ 62,673**	**$ 30,080**	$ 66,544	$ 47,724
Preferred shares	**328,101**	**293,705**	304,272	240,672
Debentures	**77,975**	**72,186**	65,061	59,223
Specialized and Seed funds	**56,863**	**35,408**	55,591	36,030
Venture capital investments	**$ 525,612**	**$ 431,379**	$ 491,468	$ 383,649

The CICA's Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities (VIEs)*, provides guidance for applying consolidation principles found in the CICA Handbook section 1590, *Subsidiairies*, to those entities defined as VIEs. A VIE is an entity in which the total equity investment at risk is not sufficient to finance its activities without additional subordinate financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The new guideline requires consolidation of an entity by the primary beneficiary and defines a primary beneficiary to be the enterprise that absorbs or receives the majority of the VIE's expected losses or gains, or both. AcG-15 also requires specific disclosure for VIEs that are not consolidated but in which the entity has a significant variable interest.

The Bank has significant variable interest in VIEs for which the Bank is not the primary beneficiary and is not required to consolidate these entities. Such investments are carried at fair value. The Bank's maximum exposure to loss with respect to these VIEs is as follows;

	2006		2005	
	Total Assets	**Maximum Exposure to Loss**	Total Assets	Maximum Exposure to Loss
Specialized funds	**$ 34,265**	**$ 28,683**	$ 26,753	$ 26,753

($ in thousands except as otherwise indicated)

9 – VENTURE CAPITAL INVESTMENTS (continued)

The Bank has invested in seed funds over which it has joint control. The following table summarizes the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2006	2005
Current assets	$ 1,441	$ 1,754
Venture capital investments	4,716	7,145
Other assets	2	3
Current liabilities	79	47
Investment income	(294)	81
Write-down on investments	401	2,554
Change in unrealized depreciation	1,201	–
Operating and administrative expenses	398	480
Loss from Venture Capital	$ (2,294)	$ (2,953)
Cash flows from (used in):		
Operating activities	$ (277)	$ (350)
Investing activities	167	(522)
Financing activities	(150)	600

10 – FIXED ASSETS

	Cost	Accumulated Amortization	Carrying Value
Computer equipment and telecommunication	$ 28,646	$ 24,433	$ 4,213
Furniture, fixtures and equipment	39,837	34,875	4,962
Leasehold improvements	43,028	28,213	14,815
Corporate project development costs	35,729	22,058	13,671
Total 2006	$ 147,240	$ 109,579	$ 37,661
Total 2005	$ 135,792	$ 94,645	$ 41,147

11 – OTHER ASSETS

	2006	2005
Accrued benefit asset (Note 21)	$ 78,641	$ 60,696
Unamortized debt issue expenses on long-term notes	1,147	1,536
Other	12,818	27,272
	$ 92,606	$ 89,504

($ in thousands except as otherwise indicated)

12 – BORROWINGS

The Bank issues debt instruments in capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below presents the outstanding notes as at March 31.

			2006		2005	
Maturity date	**Effective rate**	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Short-term notes						
2006	2.37% – 2.87%	USD			$ 977,060	$ 1,177,142
		CDN			2,270,162	2,259,866
2007	2.95% – 4.88%	USD	**$ 1,638,725**	**$ 1,900,282**		
		CDN	**2,312,246**	**2,299,065**		
Total short-term notes				**$ 4,199,347**		$ 3,437,008

				2006		2005	
Maturity date	**2006 Effective rate***	**2005 Effective rate***	**Currency**	**Principal amount**	**Carrying value**	Principal amount	Carrying value
Long-term notes							
2006		2.19% – 4.87%	CDN	–	–	231,448	232,291
2007	3.14% – 4.98%	2.14% – 3.79%	CDN	**286,102**	**288,137**	259,440	261,774
2008	3.49% – 3.61%	2.30% – 2.41%	CDN	**267,940**	**267,940**	265,600	265,600
2009	3.51%	2.25%	USD	**43,000**	**50,215**	43,000	52,013
	3.40% – 3.65%	2.15% – 2.37%	CDN	**226,965**	**231,647**	252,524	255,785
2010	3.49% – 3.56%	2.28% – 2.34%	USD	**40,000**	**46,712**	40,000	48,384
	3.41% – 3.68%	2.15% – 2.33%	CDN	**239,731**	**248,576**	268,736	274,465
2011	3.41% – 3.55%	2.29%	USD	**17,000**	**20,023**	10,000	12,074
	3.36% – 3.75%	2.14% – 2.32%	CDN	**424,585**	**415,570**	477,790	449,341
2012	3.52%	2.30%	USD	**10,000**	**11,678**	10,000	12,096
	3.36% – 3.44%	2.14% – 2.21%	CDN	**324,786**	**395,001**	355,244	356,696
2013	3.55% – 3.60%	2.33% – 2.35%	USD	**16,000**	**18,685**	16,000	19,354
	3.51% – 3.58%	2.33%	CDN	**15,000**	**15,000**	5,000	5,000
2014	3.52% – 3.57%	2.31% – 2.35%	YEN	**1,500,000**	**14,884**	4,400,000	49,650
	3.48% – 3.62%	2.28% – 2.38%	USD	**93,200**	**108,839**	93,200	112,735
	3.51% – 3.59%	2.31% – 2.33%	CDN	**77,000**	**77,000**	20,000	20,000
2015	3.53% – 3.59%	2.30% – 2.37%	YEN	**3,000,000**	**29,768**	9,200,000	103,814
	3.50% – 3.60%	2.30% – 2.35%	USD	**45,000**	**52,551**	65,000	78,624
2016	3.50% – 3.59%	2.32% – 2.36%	YEN	**11,000,000**	**109,150**	2,500,000	28,210
	3.57% – 3.58%		USD	**40,000**	**46,712**	–	–
2017	3.53% – 3.54%	2.29% – 2.34%	YEN	**3,700,000**	**36,713**	6,800,000	76,732
	3.54%	2.29%	USD	**3,000**	**3,504**	3,000	3,629
2018	3.47% – 3.64%	2.31% – 2.41%	YEN	**35,800,000**	**355,232**	26,300,000	296,772
2019	3.49% – 3.62%	2.28% – 2.39%	YEN	**30,000,000**	**297,680**	38,900,000	438,952
	3.58%	2.36%	USD	**22,838**	**26,671**	21,632	26,166
2020	3.36% – 3.63%	2.27% – 2.37%	YEN	**25,900,000**	**256,997**	32,000,000	361,091
		2.41%	CDN	–	–	10,000	10,000
2021	3.50% – 3.60%		YEN	**21,560,000**	**213,933**	–	–
	3.54%		USD	**32,542**	**38,003**	–	–
Total long-term notes					**$ 3,676,821**		$ 3,851,248

* The effective rates on long-term notes are established after giving effect to swap contracts when applicable and refer to yield to maturity for fixed rate issues, and yield to reset for floating rate issues

($ in thousands except as otherwise indicated)

12 – BORROWINGS (continued)

The preceding table includes $3,672,071 in 2006 and $3,851,248 in 2005 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the note holders. The types of notes included in the previous table are as follows:

	2006	2005
Interest-bearing notes	$ 137,854	$ 167,215
Fixed and inverse floating rate notes	929,179	1,015,579
Managed futures	925,052	1,108,946
Notes linked to equity indices	709,198	736,695
Notes linked to currency rates	280,812	278,717
Notes linked to swap rates	122,812	94,787
Notes extendible beyond maturity	73,000	–
Other structured notes	498,914	449,309
	$ 3,676,821	$ 3,851,248

Long-term notes of $2,351,896 are redeemable prior to maturity ($2,321,871 as at March 31, 2005).

As at March 31, 2006, the payment requirements and maturities of long-term notes are as follows:	
2007	$ 288,137
2008	267,940
2009	281,862
2010	295,288
2011	435,593
2012 and later	2,108,001
	$ 3,676,821

The Bank has an available overdraft facility of $75 million, for the Bank's cash accounts totalled together. When the daily balance outstanding is in an overdraft position, interest charges are accumulated at prime. At March 31, 2006, the Bank was not in an overdraft position.

The Bank also has a line of credit for $50 million which was not used throughout fiscal 2006.

13 – OTHER LIABILITIES

	2006	2005
Deferred income	$ 1,648	$ 410
Accrued benefit liability (Note 21)	105,964	112,031
Other	25,930	26,109
	$ 133,542	$ 138,550

Notes to CONSOLIDATED FINANCIAL STATEMENTS

($ in thousands except as otherwise indicated)

14 – SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

Outstanding		**2006**				2005	
	Number of shares	**Amount**	**Dividend rate**		Number of shares	Amount	Dividend rate
Preferred shares							
Class A – Series 1	**500,000**	**$ 50,000**	**3.865%**		500,000	$ 50,000	4.585%
– Series 2	**500,000**	**50,000**	**4.365%**		500,000	50,000	4.365%
– Series 3	**500,000**	**50,000**	**3.965%**		500,000	50,000	3.965%
– Series 4	**400,000**	**40,000**	**3.970%**		400,000	40,000	3.610%
– Series 5	**400,000**	**40,000**	**4.260%**		400,000	40,000	2.820%
		230,000				230,000	
Common shares	**8,084,000**	**808,400**			8,084,000	808,400	
Total Outstanding Share Capital		**$ 1,038,400**				$ 1,038,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro-rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank. The Bank's ratio at March 31, 2006 was 4.7:1 (4.6:1 as at March 31, 2005).

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed $1.5 billion. At March 31, 2006, these amounts totalled $1.1 billion ($1.1 billion as at March 31, 2005).

15 – INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	2006	2005
Interest income		
Financing	**$ 647,134**	$ 562,680
Venture capital	**6,811**	983
	$ 653,945	$ 563,663
Interest expense		
Interest on notes	**$ 111,693**	$ 80,696
Interest on swaps	**101,644**	77,737
Other	**534**	1,886
	$ 213,871	$ 160,319
Amortization of fixed assets	**$ 14,934**	$ 12,088
Currency translation adjustment	**$ 88**	$ (626)

($ in thousands except as otherwise indicated)

16 – OPERATING AND ADMINISTRATIVE EXPENSES

	2006			2005		
	Financing	**Consulting**	**Venture Capital**	Financing	Consulting	Venture Capital
Salaries and benefits	**$ 140,388**	**$ 11,761**	**$ 9,390**	$ 126,258	$ 9,908	$ 8,937
Premises and equipment	**34,087**	**990**	**1,460**	30,288	1,090	1,459
Other expenses	**56,779**	**12,601**	**2,763**	57,205	10,813	3,062
	$ 231,254	**$ 25,352**	**$ 13,613**	$ 213,751	$ 21,811	$ 13,458

17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases, fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values of on-balance sheet financial instruments (except for investments carried at fair value) are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2006			2005		
	Fair value	**Carrying value**	**Fair value over (under) carrying value**	Fair value	Carrying value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and cash equivalents	**$ 752,730**	**$ 752,730**	**$ –**	$ 756,355	$ 756,355	$ –
Securities (Note 5)	**177,790**	**177,555**	**235**	146,805	146,348	457
Loans, net of allowance for credit losses	**8,150,681**	**8,178,576**	**(27,895)**	7,542,946	7,528,973	13,973
Subordinate financing investments	**95,205**	**95,205**	–	52,251	53,865	(1,614)
Venture capital investments (Note 9)	**431,379**	**431,379**	–	393,198	383,649	9,549
Other	**13,007**	**13,007**	–	8,809	8,809	–
	$ 9,620,792	**$ 9,648,452**	**$ (27,660)**	$ 8,900,364	$ 8,877,999	$ 22,365
Liabilities						
Accounts payable and accrued liabilities	**$ 77,624**	**$ 77,624**	**$ –**	$ 75,650	$ 75,650	$ –
Accrued interest on borrowings	**21,206**	**21,206**	–	20,609	20,609	–
Short-term notes	**4,199,044**	**4,199,347**	**(303)**	3,437,062	3,437,008	54
Long-term notes	**3,548,101**	**3,676,821**	**(128,720)**	4,057,194	3,851,248	205,946
Other	**10,032**	**10,032**	–	8,717	8,717	–
	$ 7,856,007	**$ 7,985,030**	**$ (129,023)**	$ 7,599,232	$ 7,393,232	$ 206,000
			$ 101,363			$ (183,635)
Derivative financial instruments						
Derivative-related assets (Note 18)	**$ 380,243**	**$ 545,711**	**$ (165,468)**	$ 341,878	$ 445,320	$ (103,442)
Derivative-related liabilities (Note 18)	**$ 477,726**	**511,606**	**(33,880)**	304,807	352,527	(47,720)
	$ (97,483)	**$ 34,105**	**$ (131,588)**	$ 37,071	$ 92,793	$ (55,722)
Total			**$ (30,225)**			$ (239,357)

17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and cash equivalents
- Other assets and liabilities
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities – The basis used to estimate the fair value of securities is provided in Note 5 to the consolidated financial statements.

Loans – For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses*.

Investments – Note 2 describes the fair value methods used by the Bank.

Long-term notes – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments – The basis used to estimate the fair value of derivative financial instruments is provided in Note 18 to the consolidated financial statements.

18 – DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps are contractual obligations to exchange a series of cash flows on a specific notional amount, for a predetermined period. The various swap agreements that the Bank enters into are as follows:

- *Interest rate swaps* involve exchange of fixed and floating interest payments.
- *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies.
- *Equity-linked swaps,* where one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.
- *Credit default swaps,* one counterparty pays the other a fee in exchange for that other counterparty agreeing to make a payment if a credit event occurs, such as bankruptcy or a credit rating change of another third party.

The main risk associated with these instruments is related to the Bank's exposure to counterparties' credit risk.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future. *Forwards* are customized contracts transacted in the over-the-counter market. *Futures* are transacted in standardized amounts on regulated exchange markets and are subject to daily cash margining.

The main risks associated with these instruments arise from the possible inability of over-the-counter counterparties to meet the terms of the contracts and from movements in interest rates and foreign exchange rates, as applicable.

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by gross assets and gross liabilities values.

	2006			2005		
	Gross assets	**Gross liabilities**	**Net amount**	Gross assets	Gross liabilities	Net amount
Derivative financial instruments						
Interest rate swap contracts	$ 1,068	$ 13,753	$ (12,685)	$ 3,857	$ 8,099	$ (4,242)
Equity-linked swap contracts	335,537	47,820	287,717	324,755	76,238	248,517
Cross-currency interest rate swap contracts	21,856	415,161	(393,305)	11,940	200,314	(188,374)
Currency forward contracts	21,762	922	20,840	1,326	20,123	(18,797)
Total fair value – hedging derivatives (1)	$ 380,223	$ 477,656	$ (97,433)	$ 341,878	$ 304,774	$ 37,104
Total book value – hedging derivatives	$ 545,691	$ 511,536	$ 34,155	$ 445,320	$ 352,527	$ 92,793
Ineffective Hedges						
Interest rate swap contracts	$ 1	$ 66	$ (65)	$ –	$ 30	$ (30)
Forward rate agreements	19	4	15	–	3	(3)
Total fair value – ineffective derivatives	$ 20	$ 70	$ (50)	$ –	$ 33	$ (33)
Total book value – ineffective derivatives	$ 20	$ 70	$ (50)	$ –	$ –	$ –

(1) The fair value of hedging derivatives wholly or partially offsets the changes in fair values of the related on-balance sheet financial instruments

Assets are shown net of liabilities to counterparties where the Bank has an enforceable right to offset amounts and intends to settle contracts on a net basis.

Derivative financial instruments recorded on the consolidated balance sheet are as follows:

	Assets		**Liabilities**	
	2006	2005	**2006**	2005
Book value of hedging derivatives	$ 545,691	$ 445,320	$ 511,536	$ 352,527
Fair value of ineffective derivatives	20	–	70	–
Total	$ 545,711	$ 445,320	$ 511,606	$ 352,527

The fair value of derivatives is determined using various methods including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methods as appropriate.

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2006		2005	
	Within 1 year	%	1 to 3 years	%	3 to 5 years	%	Over 5 years	%	**Notional amount**	**Replacement cost**	Notional amount	Replacement cost
Hedging												
Interest rate contracts												
$CDN payable-fixed	$ 109,000	3.47	$ 33,956	3.36	$ –	–	$ –	–	**$ 142,956**	**$ 147**	$ 15,000	$ –
$CDN receivable-fixed	65,000	3.89	153,000	3.54	50,000	3.79	–	–	**268,000**	**172**	335,000	1,848
$US receivable-fixed	–	–	–	–	2,431	3.40	–	–	**2,431**	**–**	10,499	–
Basis Swap	170,000	3.71							**170,000**	**–**	–	–
Other swap contracts	34,612	n.a.	21,500	n.a.		n.a.	38,360	n.a.	**94,472**	**749**	46,673	2,009
Equity linked swap contracts	217,280	n.a.	628,193	n.a.	1,131,750	n.a.	552,765	n.a.	**2,529,988**	**335,537**	2,960,865	324,755
	595,892		836,649		1,184,181		591,125		**3,207,847**	**336,605**	3,368,037	328,612
Cross-currency interest rate swap contracts	35,600	n.a.	137,580	n.a.	127,606	n.a.	2,046,076	n.a.	**2,346,862**	**21,856**	2,164,157	11,940
Total interest rate contracts	631,492		974,229		1,311,787		2,637,201		**5,554,709**	**358,461**	5,532,194	340,552
Foreign exchange contracts												
Currency forward contracts	1,864,574	n.a.							**1,864,574**	**21,762**	1,192,280	1,326
Total foreign exchange contracts	1,864,574		–		–		–		**1,864,574**	**21,762**	1,192,280	1,326
Total Hedging	$ 2,496,066		$ 974,229		$ 1,311,787		$ 2,637,201		**$ 7,419,283**	**$ 380,223**	$ 6,724,474	$ 341,878
Ineffective Hedging												
Basis swaps	170,800	n.a.							**170,800**	–	75,000	–
Forward rate agreements	70,500		–		–		–		**70,500**	**19**	10,000	–
Other swap contracts	19,547	n.a.	–	n.a.	–	n.a.	–	n.a.	**19,547**	**1**	–	–
Total Ineffective Hedging	$ 260,847		$ –		$ –		$ –		**$ 260,847**	**$ 20**	$ 85,000	$ –
Total	$ 2,756,913		$ 974,229		$ 1,311,787		$ 2,637,201		**$ 7,680,130**	**$ 380,243**	$ 6,809,474	$ 341,878

n.a. – not applicable or weighted rates are not significant

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent using the rate of exchange at the balance sheet date.

Credit risk

The notional amounts of derivative financial instruments held by the Bank are not indicative of the credit risk exposure associated with the contracts. The risk of loss is related to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the gross asset values of transactions that are in an unrealized gain position.

The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution.

The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

($ in thousands except as otherwise indicated)

18 – DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Counterparty Credit Risk Exposure	Counterparty Ratings			
	AAA	AA- to AA+	A to A+	Total
Gross positive replacement cost	**$ –**	**$ 283,886**	**$ 96,357**	**$ 380,243**
Impact of master netting agreements	**–**	**(98,395)**	**(45,232)**	**(143,627)**
Replacement cost (after master netting agreements)	**$ –**	**$ 185,491**	**$ 51,125**	**$ 236,616**
Replacement cost (after master netting agreements) – 2005	$ –	$ 145,615	$ 70,617	$ 216,232
Number of counterparties				
March 31, 2006	**–**	**7**	**3**	
March 31, 2005	–	4	2	

19 – INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

20 – GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS

Guarantees

The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

Derivative instruments

As part of its financing operations, the Bank has entered into a written credit derivative contract under which a counterparty is compensated for losses on a specified portfolio of loans, if a default or other defined triggering event occurs. Typically, a corporate or government entity is the counterparty to the written credit derivative contract that meets the characteristics of guarantees described above. The maximum potential amount of future payments on this written credit default swap is $22,224 and is included in the consolidated balance sheet under derivative-related liabilities.

Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, employment contracts, service agreements and leasing arrangements. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's past conduct if other parties fail to perform, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. The nature of these indemnification contracts is such that the Bank cannot reasonably estimate the maximum potential future amount that may be payable to counterparties. Historically, the Bank has not made any significant payments under these indemnities.

Contingent liabilities

A class action recourse has been launched by some of the Bank's pensioners for surplus amounts and reimbursement of certain expenses in the Bank's Pension Plan. BDC has a meritorious defence to these claims. However, at this stage, it is too early to predict the outcome of this matter.

The former President and Chief Executive Officer of the Bank, who was released from his duties in February 2004, has instituted proceedings against the federal government for the recovery of damages allegedly resulting from the termination of this employment. Although named in the lawsuit as an impleaded party, the Bank is not a target of the litigation and no monetary or other demands have been made against it.

Various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that should the Bank be found liable pursuant to one or more of these proceedings, the aggregate liability resulting from such proceedings would not be material.

Commitments

Undisbursed amounts of authorized financing are approximately $914,300 at March 31, 2006. These financing commitments are for an average period of 3 months ($134,700 fixed rate; $779,600 floating rate). The effective interest rates on these financing commitments vary from 5.1% to 19.4%. These include the Bank's share of undisbursed amounts of authorized joint venture financings which is approximately $14,800 at March 31, 2006. The undisbursed amounts on authorized venture capital investments approximated $129,300 at March 31, 2006.

($ in thousands except as otherwise indicated)

20 – GUARANTEES, CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Future minimum lease commitments under operating leases related to the rental of Bank premises are approximately as follows:

2007	$ 20,481
2008	18,446
2009	16,936
2010	14,961
2011	11,376
2012 and later	76,695
	$ 158,895

21 – EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans for eligible employees ("pension plan"), which provide post-retirement benefits based on number of years of service and average final pay and is fully indexed to the Consumer Price Index. The Bank also provides health care benefits, life insurance and other benefit for employees and eligible retirees.

The Bank has two benefit obligations: one for pension benefits and the other for other employee future benefits. These benefit obligations represent the amount of pension and other employee future benefits that the Bank's employees and retirees have earned by the December 31st prior to year-end. The Bank's pension cost is calculated at this date for the March 31st that follows. Post-retirement benefits are based on valuations at March 31 of the prior year. Post-employment benefits are calculated as at March 31, 2006.

The Bank's actuaries prepare annual valuations of benefit liabilities for pension and other employee future benefits that the employees and retirees of the Bank have earned as at March 31. These valuations are based on Management's assumptions about discount rates, salary growth, expected average remaining service period of active employees, mortality and health care cost trends. The discount rate is determined by Management with reference to market conditions in place at the December 31st immediately prior to the new fiscal year (April 1st). Other assumptions are determined with reference to long-term expectations.

Total cash payments for employee future benefits, consisting of cash contributed by the Bank to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans was $41 million ($5.2 million in 2005).

A full discussion of how the Bank's pension liability and expense are estimated can be found in Note 2.

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2006	2005	**2006**	2005	**2006**	2005
Change in accrued benefit obligation						
Balance at beginning of year	**$ 457,473**	$ 410,936	**$ 38,587**	$ 36,637	**$ 100,205**	$ 85,126
Current service cost	**16,981**	15,715	**745**	1,029	**4,514**	3,398
Interest cost on benefit obligation	**27,940**	26,116	**2,326**	2,308	**6,013**	5,820
Employee contributions	**1,889**	509	**–**	–	**–**	–
Benefits paid	**(21,365)**	(18,105)	**(1,128)**	(1,426)	**(5,496)**	(4,988)
Actuarial loss	**66,169**	22,302	**6,770**	39	**16,184**	10,849
Balance at end of year	**549,087**	457,473	**47,300**	38,587	**121,420**	100,205
Change in fair value of plan assets						
Balance at beginning of year	**$ 481,233**	$ 453,920	**$ 2,995**	$ 3,377	**$ –**	$ –
Employee contributions	**1,889**	509	**–**	–	**–**	–
Employer contributions	**16,356**	–	**853**	1,027	**–**	–
Actual return on plan assets during the year	**53,601**	44,909	**24**	17	**–**	–
Benefits paid	**(21,365)**	(18,105)	**(1,128)**	(1,426)	**–**	–
Balance at end of year	**531,714**	481,233	**2,744**	2,995	**–**	–
Surplus (deficit) at end of year	**$ (17,373)**	$ 23,760	**$ (44,556)**	$ (35,592)	**$ (121,420)**	$ (100,205)
Employer contributions after measurement date	**4,190**	–	**13,985**	195	**622**	313
Unamortized transitional obligation (asset)	**(33,603)**	(47,044)	**1,316**	1,049	**1,381**	1,578
Unamortized net actuarial loss	**125,427**	83,980	**13,799**	7,529	**28,909**	13,102
Accrued benefit asset (liability) at end of year [(1)]	**$ 78,641**	$ 60,696	**$ (15,456)**	$ (26,819)	**$ (90,508)**	$ (85,212)

(1) – Net amount recognized in the consolidated balance sheet as "Other assets" or "Other liabilities", as appropriate

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2006	2005	**2006**	2005
Fair value of plan assets	**$ 2,744**	$ 2,995	**$ –**	$ –
Accrued benefit obligation	**47,300**	38,587	**121,420**	100,205

Pension and other post-retirement costs are included in Salaries and Benefits in Note 16 – Operating and Administrative Expenses and are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2006	2005	**2006**	2005	**2006**	2005
Defined benefit cost						
Current service cost	**$ 16,981**	$ 15,715	**$ 745**	$ 1,029	**4,514**	$ 3,398
Interest cost	**27,940**	26,116	**2,326**	2,309	**6,013**	5,820
Actual return on plan assets	**(53,601)**	(44,909)	**(24)**	(17)	**–**	–
Actuarial loss (gain) on benefit obligation	**66,169**	22,302	**6,770**	39	**16,233**	(1,971)
Costs arising in the period	**57,489**	19,224	**9,817**	3,360	**26,760**	7,247
Differences between costs arising in the period and costs recognized in the period in respect of						
Return on plan assets	**20,350**	12,637	**(76)**	(98)	**–**	–
Actuarial (gain) loss	**(61,797)**	(18,285)	**(6,194)**	618	**(15,856)**	2,483
Transitional obligation (asset)	**(13,441)**	(13,441)	**(267)**	(267)	**197**	197
Defined benefit cost for the year ended March 31	**$ 2,601**	$ 135	**$ 3,280**	$ 3,613	**$ 11,101**	$ 9,927

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

The unamortized net actuarial loss in the Bank's registered pension plan is $125,427 which exceeds 10% of the fair value of the plan assets by $72,256 at December 31, 2005. The unamortized net actuarial loss in the supplemental pension plans is $13,799 which exceeds 10% of the benefit obligation balance by $9,069 at December 31, 2005. These excess amounts will be amortized to pension cost over the expected average remaining service period of active employees, commencing April 1, 2006. As a result of these changes and other factors, pension costs for the Registered pension plan and the Supplemental pension plans are expected to increase by approximately $8.3 million in fiscal 2007. Amortization of accumulated net actuarial losses in periods subsequent to March 31, 2007 will be affected principally by the discount rate used to estimate benefit obligations and by the difference between future investment results and the expected return on plan assets.

As at December 31, the fair value of assets in the Bank's Registered pension plan are as follows:

	2006		2005	
Cash and short-term investment	**$ 6,042**	**1.1%**	$ 2,687	0.6%
Bonds	**204,310**	**38.4%**	185,906	38.6%
Common and preferred shares	**320,962**	**60.4%**	292,295	60.7%
Other assets less liabilities	**400**	**0.1%**	345	0.1%
Net assets available for benefits	**$ 531,714**	**100.0%**	$ 481,233	100.0%

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations and annual benefit cost (weighted averages) are as follows:

	Registered pension plan		**Supplemental pension plans**		**Other plans**	
	2006	2005	**2006**	2005	**2006**	2005
Significant actuarial assumptions used to determine the accrued benefit obligations						
Discount rate at beginning of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% – 6.75%
Discount rate at end of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets (1)	**7.00%**	7.25%	**3.50%**	3.63%	–	–
Significant actuarial assumptions used to determine the annual benefit cost						
Discount rate at beginning of year	**6.00%**	6.25%	**6.00%**	6.25%	**6.00%**	6.25% – 6.75%
Discount rate at end of year	**5.25%**	6.00%	**5.25%**	6.00%	**5.25%**	6.00%
Expected long-term rate of return on plan assets (1)	**7.00%**	7.25%	**3.50%**	3.63%	–	–

(1) The expected long-term rate on plan assets is calculated using assets valued at fair value

The average rate of compensation increase is expected to be inflation which is assumed to be 2.75% (in 2005, 2.75%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to be 8.00% in 2006, reducing by 1.00% each year to 5.00% in 2009 and subsequent years (7.25% in 2005 reducing by 0.75% each year to 4.25% in 2009 and subsequent years).

($ in thousands except as otherwise indicated)

21 – EMPLOYEE FUTURE BENEFITS (continued)

Sensitivity of Assumptions

The impact of a one percent change in the key weighted-average economic assumptions used in measuring the pension benefit liability, the supplemental pension plans and the other plans liabilities and their related costs are summarized in the table below.

	Registered pension plan cost	Supplemental pension plans cost	Other plans cost
Increase (decrease) in			
Expected rate of return on assets	7.00%	3.50%	n.a.
Impact of: 1% increase	(4,607)	(14)	n.a.
1% decrease	4,607	14	n.a.
Discount rate	6.00%	6.00%	6.00%
Impact of: 1% increase	(7,888)	(661)	85
1% decrease	13,285	726	(98)
Rate of compensation increase	3.85%	3.85%	3.85%
Impact of: 0.25% increase	756	44	17
0.25% decrease	(736)	(43)	(16)
Assumed overall health care cost trend			
Impact of: 1% increase	n.a.	n.a.	18,329
1% decrease	n.a.	n.a.	(14,211)

22 – RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business, under terms and conditions similar to those that apply to unrelated parties.

23 – SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into three business segments comprising Financing, Consulting and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Consolidated Statement of Income and the average assets of the Financing and Venture Capital portfolios are disclosed in notes 6 and 9, respectively.

24 – COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform to the presentation adopted in 2006.

Five-Year OPERATIONAL AND FINANCIAL Summary

for the years ended March 31 ($ in thousands)

OPERATIONAL STATISTICS	2006	2005	2004	2003	2002
BDC FINANCING* AND BDC VENTURE CAPITAL					
Committed to financing clients as at March 31					
Amount	**$ 9,676,173**	$ 9,014,146	$ 8,354,022	$ 7,595,964	$ 6,826,948
Number of clients	**25,802**	24,369	22,796	21,733	20,625
Committed to Venture Capital clients as at March 31					
Amount	**$ 654,876**	$ 604,389	$ 490,736	$ 429,755	$ 374,189
Number of clients	**193**	202	170	164	155
Financing authorizations					
Net amount	**$ 2,509,158**	$ 2,266,588	$ 2,082,647	$ 2,031,907	$ 1,739,404
Number	**8,506**	7,523	7,268	6,326	5,743
Venture Capital authorizations					
Net amount	**$ 140,016**	$ 143,119	$ 108,812	$ 92,689	$ 106,021
Number	**83**	80	70	61	63
FINANCIAL STATISTICS – BDC FINANCING*					
Net interest income and other income as a percentage of average financing portfolio	**5.6%**	5.7%	5.8%	5.8%	5.9%
Provision for credit losses as a percentage of average financing portfolio	**1.0%**	0.7%	1.7%	1.5%	1.7%
Operating and administrative expenses as a percentage of average financing portfolio	**2.8%**	2.8%	2.8%	2.8%	2.9%
Financing operations productivity ratio	**48.9%**	48.5%	48.7%	47.8%	48.5%
BDC CONSULTING REVENUE	**$ 21,570**	$ 18,924	$ 20,006	$ 18,221	$ 18,189

* BDC Financing includes Loans and Subordinate Financing

Five-Year OPERATIONAL AND FINANCIAL Summary

($ in thousands)

FINANCIAL INFORMATION	2006	2005	2004	2003	2002
STATEMENT OF INCOME					
for the years ended March 31					
Net Income (loss)					
Financing	**$ 154,742**	$ 172,518	$ 92,555	$ 94,507	$ 80,458
Consulting	**(3,782)**	(2,887)	(3,135)	(3,142)	(5,748)
Venture Capital	**(12,779)**	(56,143)	(30,299)	(59,485)	(20,977)
Net Income	**$ 138,181**	$ 113,488	$ 59,121	$ 31,880	$ 53,733
BALANCE SHEET					
as at March 31					
Loans, net of allowance for credit losses	**$ 8,178,576**	$ 7,528,973	$ 6,977,544	$ 6,288,636	$ 5,669,513
Subordinate financing investments	**95,205**	53,865	–	–	–
Financing	**$ 8,273,781**	$ 7,582,838	$ 6,977,544	$ 6,288,636	$ 5,669,513
Venture capital investments	**$ 431,379**	$ 383,649	$ 345,624	$ 301,945	$ 271,064
Total assets	**$10,311,423**	$ 9,445,161	$ 8,809,218	$ 7,791,359	$ 6,897,204
Total shareholder's equity	**$ 1,691,277**	$ 1,569,569	$ 1,218,459	$ 1,170,017	$ 960,320
Total liabilities	**$ 8,620,146**	$ 7,875,592	$ 7,590,759	$ 6,621,342	$ 5,936,884
Average financing portfolio	**$ 8,422,228**	$ 7,756,821	$ 7,136,429	$ 6,402,284	$ 5,749,376
Average loan portfolio	**$ 8,346,626**	$ 7,709,870	$ 7,136,429	$ 6,402,284	$ 5,749,376

BOARD OF DIRECTORS

CEDRIC E. RITCHIE, O.C

Chairman OF THE BOARD, BDC | Toronto, Ontario

Cedric E. Ritchie, O.C., has been Chairman of BDC since January 2001. Mr. Ritchie was chairman and CEO of The Bank of Nova Scotia from 1974 until his retirement in 1995. He sits on the boards of several organizations including Canada Post Corporation, Mercedes-Benz Canada and Twin Mining Corporation. Mr. Ritchie is a fellow of the Institute of Canadian Bankers and Officer of the Order of Canada. He was inducted into the Canadian Business Hall of Fame in 2000

JEAN-RENÉ HALDE

President and Chief Executive Officer BDC | Montréal, Quebec

Jean-René Halde has been BDC's President and Chief Executive Officer since June 2005. With more than 30 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He served as Academic Director at the Corporate Governance College of the Institute of Corporate Directors in Montréal and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School

TREVOR ADEY

CEO, CONSILIENT® | St. John's, Newfoundland and Labrador

Trevor Adey, who became a BDC director in April 2005, is CEO of Consilient®, a leader in push e-mail solutions for mobile phones and devices. Previously, he was Vice President of Sales and Business Development with Stratos and Director of Sales with Infosat Telecommunications. Mr. Adey was named one of "Canada's Top 40 Under 40™" in 2005 and "Emerging Entrepreneur of the Year" by Ernst and Young in 2004. Mr. Adey is Chairman of the Advisory Committee for Memorial University of Newfoundland's Faculty of Engineering and Applied Science and is a board member of Newfoundland Power and Memorial's Genesis Centre

CHRISTIANE BERGEVIN

President, SNC-LAVALIN CAPITAL INC. | Montréal, Quebec

Christiane Bergevin joined the BDC Board of Directors in June 2005. Ms. Bergevin is a seasoned executive with more than 20 years of experience in domestic and international financing, acquisitions and partnerships. Since 2001 she has been President of SNC-Lavalin Capital Inc., a subsidiary of SNC-Lavalin, where she heads a team of finance professionals in Canada and Europe who have arranged over US$5 billion in financing in recent years. During her career, Ms. Bergevin has established strong ties with leading financial institutions and pension funds in Canada and abroad.

STAN BRACKEN-HORROCKS

President, SE BRACKEN-HORROCKS INVESTMENTS LTD. | Vancouver, British Columbia

Stan Bracken-Horrocks, who joined the BDC Board of Directors in April 2005, is a retired partner at PricewaterhouseCoopers. A chartered accountant, he has worked with PricewaterhouseCoopers since 1962 and gained extensive experience with boards of directors of public companies and their audit and finance committees. Mr. Bracken-Horrocks is Past President of the Institute of Chartered Accountants. He is active in his community, having served on a number of boards of directors and is currently on the board of the Vancouver Police Foundation.

CINDY CHAN
CEO, INFOSPEC SYSTEMS INC. | Richmond, British Columbia

Cindy Chan joined the BDC Board of Directors in August 2005. Ms. Chan is the co-founder and CEO of InfoSpec Systems Inc., a software development company that has been ranked one of the top 100 technology companies in British Columbia. Ms. Chan was named the 2003 Ethel Tibbits Business Woman of the Year. She is the Co-Chair of the International Business Committee of the Richmond Chamber of Commerce and the Chairperson of the Diversity Fund-raising Committee for the Canadian Cancer Society. She holds a BSc from Simon Fraser University.

LÉANDRE CORMIER
President and owner, WEST-WOOD INDUSTRIES LTD. | Scoudouc, New Brunswick

Léandre Cormier became a director of BDC in August 2002. He is President and owner of West-Wood Industries Ltd of Scoudouc, New Brunswick, which produces high-end custom windows and doors and other value-added wood products for Canadian and U.S. markets. From 1987 to 2000, Mr. Cormier was the President and owner of Georgetown Timber Ltd., of Georgetown, Prince Edward Island.

CYNTHIA DESMEULES-BERTOLIN
President, SUNROPE CONSULTING SERVICES LTD. *and* CONSULTING BARRISTER, ALBERTA METIS NATION
Edmonton, Alberta

Cynthia Desmeules-Bertolin, who joined the BDC Board in March 2002, is the President of Sunrope Consulting Services Ltd. and a consulting barrister to the Alberta Métis Nation on Aboriginal rights and on business development issues. Ms. Bertolin is a national jurist for the PAR (Progressive Aboriginal Relations) Program at the Canadian Council for Aboriginal Business. She has served as the Vice-Chair of the National Aboriginal Economic Development Board federally and was the Chairperson for Apeetogosan Métis Development Inc., an Aboriginal financial institution.

LOUIS J. DUHAMEL
Partner, SECOR-TAKTIK | Montréal, Quebec

Louis J. Duhamel, who became a BDC director in April 2003, has held various positions with Secor, one of Canada's leading management consulting groups. He is currently a partner in Secor's SME division, Secor-Taktik, which he co-founded

TERRY B. GRIEVE
Saskatoon, Saskatchewan

Terry B. Grieve, who joined the BDC Board of Directors in April 1996, is a native of Saskatchewan. Until December 2005, Mr. Grieve was a principal of Ventures West Management Inc., a private, professional venture capital management firm. He was also Executive Vice President of the Saskfund group of companies

JOHN HYSHKA
Chief Financial Officer and Chief Operating Officer, PHENOMENOME DISCOVERIES INC.
Saskatoon, Saskatchewan

John Hyshka became a member of the BDC Board of Directors in May 2005. As Chief Financial Officer and Chief Operating Officer of Phenomenome Discoveries Inc., a Canadian biotechnology firm he co-founded, he has raised over $20 million in equity and debt financing for a number of start-ups and small technology companies. Previously, he was Director of Economic Development for the Saskatoon Regional Economic Development Authority, responsible for the region's economic development programs and for promoting Saskatoon internationally. Mr. Hyshka has been Chair of the Saskatchewan Government Growth Fund since 2003 and is an advisor to GrowthWorks on Saskatchewan deals.

LEO LEDOHOWSKI
President and CEO, CANAD INNS | Winnipeg, Manitoba

Leo Ledohowski joined the BDC Board of Directors in March 2005. He is President and CEO of Canad Inns, which owns and operates hotels in Winnipeg, Portage la Prairie and Brandon, Manitoba, as well as a new hotel currently under construction in Grand Forks, North Dakota. Previously, Mr. Ledohowski was a professor in the Faculty of Commerce at Carleton University in Ottawa and at the University of Manitoba. He is a certified hotel administrator and he has received the Distinguished Service Award from the University of Manitoba, as well as the Fellow of the Society of Management Accountants designation recognizing outstanding contributions to the profession.

ANDRINA LEVER
President and CEO, LEVER ENTERPRISES | Toronto, Ontario

Andrina Lever, who resides in Toronto, became a member of the BDC Board of Directors in June 2005. Ms. Lever has had extensive experience in small business development, international commercial development, trade and governance. She has ongoing involvement with Asia Pacific Economic Cooperation (APEC) and her work has taken her to more than 50 countries. She has been a member of the Bar of England and Wales as a Barrister since 1980 and of the Bar of Victoria, Australia, as a barrister and solicitor since 1981.

KELVIN NG
President, NG NORTH INC. | Edmonton, Alberta

Kelvin Ng, who joined the BDC Board of Directors in April 2005, is President of Ng North Inc., a management consulting firm. He was a member of the Nunavut Legislative Assembly. He was also Deputy Premier, Minister of Finance and Chair of the Financial Management Board in the Nunavut government. Mr. Ng also served in the Legislative Assembly of N.W.T. and held numerous portfolios in the N.W.T. government. He has served in municipal politics and held positions in the private sector in chambers of commerce and in non-profit organizations. He received the Queen's Golden Jubilee Award.

VALERIE PAYN
President, HALIFAX CHAMBER OF COMMERCE | Halifax, Nova Scotia

Valerie Payn, who joined the BDC Board of Directors in March 2005, is President of the Halifax Chamber of Commerce, a position she has held since the Chamber was formed in January 1995. Previously, she was the General Manager of the Halifax Board of Trade, making her the first woman to hold the position since its establishment in 1750. Ms. Payn holds an MBA from St. Mary's University in Halifax.

Senior MANAGEMENT TEAM

JEAN-RENÉ HALDE
President and CHIEF EXECUTIVE OFFICER

Jean-René Halde has been BDC's President and Chief Executive Officer since June 2005. With more than 30 years of management experience, he has held CEO positions since 1979 in leading companies, including Livingston Group Inc., Métro-Richelieu Inc. and Culinar Inc. He served as Academic Director at the Corporate Governance College of the Institute of Corporate Directors in Montréal and has been a board member of numerous companies, including CCL Industries Inc., Groupe Vidéotron ltée, Gaz Métropolitain Inc., the Institute of Corporate Directors and the Montréal Heart Institute. He holds an MA in Economics from the University of Western Ontario and an MBA from Harvard Business School.

ANDRÉ BOURDEAU
Executive Vice President, BDC FINANCING AND CONSULTING

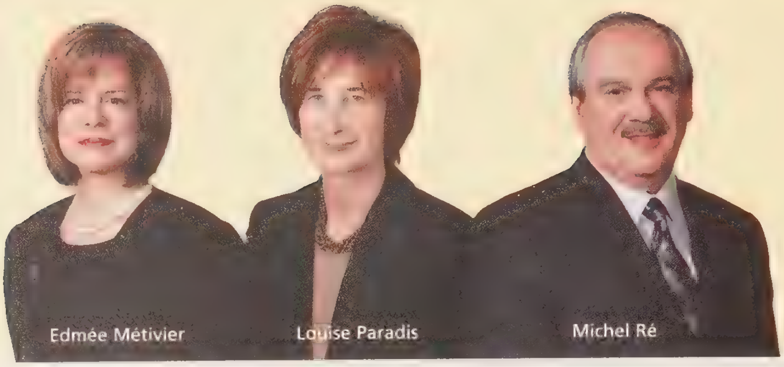
André Bourdeau, who has been with BDC since 1973, is responsible for BDC Financing, BDC Consulting and BDC Connex, the virtual branch. During his career with BDC, he has held a variety of positions both in the branches and at Head Office. Among them, he headed Quebec Operations, was Executive Assistant to the President and was Senior Vice President of Operations for the national network. In addition, Mr. Bourdeau fulfilled the role of Acting President from February 2004 to June 2005. He holds a Master's degree in Business Sciences, Finance, from the Université de Sherbrooke.

MARY KARAMANOS
Senior Vice President, HUMAN RESOURCES

Mary Karamanos, who joined BDC in 2002, is responsible for developing and implementing BDC's human resources strategy. She has more than 20 years' experience in strategic human resources and has held senior positions at Corby Distilleries in Canada and Allied Domecq, Spirits and Wine, U.S.A. She holds a BA in Industrial Relations from McGill University and the Certified Compensation Professional designation from World at Work. She is active in the community and supports a number of children's charities.

ALAN MARQUIS
Senior Vice President, FINANCE AND CHIEF FINANCIAL OFFICER

Alan Marquis joined BDC in 1995. His responsibilities include Financial Reporting and Control, Financial Planning, Loan Accounting, Middle and Back Office Operations, and Real Estate Facilities Management. Before joining BDC, Mr. Marquis was Executive Vice-President of Cast North America Inc., responsible for Finance, Container Operations and Logistics. Previously, he was Chief Financial Officer at Canadair Limited. Mr. Marquis holds a Bachelor of Commerce from the University of Edinburgh, Scotland and is a member of the Institute of Chartered Accountants of Scotland



EDMÉE MÉTIVIER
Executive Vice President, INTEGRATED RISK AND TECHNOLOGY MANAGEMENT

Edmée Métivier joined BDC in 2000. She is responsible for Aboriginal Banking Services, Integrated Risk and Portfolio Management, Credit Risk Management, Treasury, Systems and Technology, Public Affairs and E-business. She came to BDC following a 20-year career with RBC Financial Group. Ms. Métivier is a board member of Shad International, the Montréal Women's Y Foundation and Precarn Incorporated. She holds an MA in Practicing Management from University of Lancaster, England

LOUISE PARADIS
Vice President, LEGAL AFFAIRS AND CORPORATE SECRETARY

Louise Paradis joined BDC in 2004. She provides legal support to all our business units and to the Board of Directors. Previously, Ms. Paradis held managerial positions with Société Génerale, the Canadian office of a major international bank, where she was responsible for Legal Affairs, Human Resources, the Corporate Secretariat and Administration. She held the position of Director of Operations for two years. Ms. Paradis began her career at BDC as legal counsel. She holds an LL.L. from McGill University and is a member of the Barreau du Québec

MICHEL RÉ
Executive Vice President, INVESTMENTS

Michel Ré retired on January 31, 2006, after 33 years of service with BDC. He started his career as Credit Officer in Montréal, and went on to hold a variety of positions in different branches in the Quebec region, including Assistant Vice President and Area General Manager. He then joined the Head Office team in Venture Loans, moving up to the positions of Vice President, Venture Capital, and then Executive Vice President, Investments. Throughout his tenure at BDC, Mr. Ré brought energy, commitment and dedication to all his tasks and contributed significantly to BDC's success. His in-depth knowledge of the needs of entrepreneurs in many sectors of the economy has made him a highly regarded pioneer in the Canadian venture capital market.

Allowance for Credit Losses
Represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolio. Allowance for credit losses can be specific or general and is recorded on the balance sheet as a deduction from loans.

Change in Unrealized Appreciation and Depreciation of Investments
Amount included in income resulting from the movements in the fair value of investments for the period.

Consulting Revenue
Fees from services provided by BDC's national network of consultants to assess, plan, and implement result-driven, cost-effective management solutions.

Debt to Equity Ratio
A measure to ensure BDC operates within its statutory limitations on debts, calculated as the aggregate of the borrowings and contingent liabilities over the total shareholder's equity. The statutory limitations of BDC's debt to equity ratio may not exceed 12:1.

Derivatives Financial Instruments
Contracts whose value is "derived" from interest or foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Direct Investments
Represents the investments made by BDC directly in the investee companies.

Efficiency Ratio
A measure of the efficiency with which BDC incurs expenses to generate income on its financing operations. It is calculated as operating and administrative expenses as a percentage of net interest and other income. A lower ratio indicates improved efficiency.

Fair Value (also see page 58)
Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value represents Management's best estimate of the net worth of an investment at the balance sheet date, and may not reflect the ultimate realizable value upon the disposition of the investment.

General Allowance
Established by Management to recognize credit losses in the existing performing loan portfolio, which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual loan basis.

Hedging
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations.

Impaired Loans
Loans where, in Management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Master Netting Agreement
Is a standardized bilateral contract that enables trading counterparties to agree to net collateral requirements; and, in a close-out situation, settlement amounts related to underlying master trading contracts relating to sales and purchases of financial instruments. The Master Netting Agreement offsets positive balances of one transaction with negative balances of another.

Net Gains on Disposals of Investments
Gains realized, net of realized capital losses, upon sale or disposition of investments, excluding the change in unrealized appreciation or depreciation of venture capital investments.

Net Interest and Other Income
The difference between what is earned on financing portfolio assets and securities, and what is paid on borrowings, excluding the change in unrealized appreciation or depreciation of subordinate financing investments

Net Margin

Is the net interest and other income from the financing portfolio, expressed as a percentage of the total average financing portfolio.

Performing portfolio

Loans for which there is reasonable assurance of the timely collection of principal and interest.

Permanent Impairment

Investments become permanently impaired, in Management's opinion, when one or more of the following conditions apply: (i) a prolonged period during which the quoted market value of the investment is less than carrying value; (ii) suspension of trading in the investee securities; (iii) continued and severe losses that were not planned for at time of investing; (iv) liquidity or going concern problems that cannot be resolved in the immediate future; (v) material negative deviation from budget or plan. This would include not only financial data but also qualitative data about investee and all aspects of its business, e.g.: product, markets, technology, etc.

Provision for Credit Losses

A charge to income that represents an amount deemed adequate by Management to fully provide for impairment in the existing loan portfolios, given the composition of the loan portfolios, the probability of default on the loans, the economic environment and the allowance for credit losses already established.

Return on Common Equity (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common equity.

Specific Allowance

Established by Management to recognize credit losses in the impaired loan portfolio, which have occurred and are identified on an individual loan basis, as at the balance sheet date.

Subordinate Financing

Hybrid instrument that brings together some features of both debt financing and equity financing.

Subordinate Financing Investments

BDC's portfolio of subordinate financing held through its joint ventures with the *Caisse de dépôt et placement du Québec* (CDPQ), AlterInvest LP and AlterInvest Inc.

Swaps

Interest rate swaps are agreements to exchange streams of interest payments; typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over pre-determined periods of time.

Variable Interest Entity (VIE)

This is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest.

Write-down

(Before change in accounting policies.
Also see page 58)

To recognize the loss when the value of a venture capital investment is permanently impaired.

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